

American Water Works Company, Inc.

Form 10-Q

May 07, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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)

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

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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 May 2, 2013
Common Stock, \$0.01 par value per share	177,700,586 shares

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AMERICAN WATER WORKS COMPANY, INC.

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2013

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	March 31, 2013	December 31, 2012
ASSETS		
Property, plant and equipment		
Utility plant at original cost, net of accumulated depreciation of \$3,717,562 at March 31 and \$3,657,221 at December 31	\$ 11,641,442	\$ 11,584,944
Nonutility property, net of accumulated depreciation of \$207,858 at March 31 and \$199,467 at December 31	151,493	154,420
Total property, plant and equipment	11,792,935	11,739,364
Current assets		
Cash and cash equivalents	21,181	24,433
Restricted funds	31,623	29,756
Accounts receivable	208,276	221,655
Allowance for uncollectible accounts	(25,425)	(26,874)
Unbilled revenues	170,742	180,628
Income taxes receivable	13,137	9,594
Materials and supplies	31,150	29,772
Other	41,166	30,483
Total current assets	491,850	499,447
Regulatory and other long-term assets		
Regulatory assets	1,207,967	1,199,114
Restricted funds	7,246	10,791
Goodwill	1,207,161	1,207,250
Other	62,057	63,010
Total regulatory and other long-term assets	2,484,431	2,480,165
TOTAL ASSETS	\$ 14,769,216	\$ 14,718,976

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

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

	March 31, 2013	December 31, 2012
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock (\$.01 par value, 500,000 shares authorized, 177,674 and 176,988 shares outstanding at March 31 and December 31, respectively)	\$ 1,777	\$ 1,770
Paid-in-capital	6,232,815	6,222,644
Accumulated deficit	(1,607,321)	(1,664,955)
Accumulated other comprehensive loss	(114,286)	(116,191)
Treasury stock	(5,043)	0
Common stockholders' equity	4,507,942	4,443,268
Preferred stock without mandatory redemption requirements	1,720	1,720
Total stockholders' equity	4,509,662	4,444,988
Long-term debt		
Long-term debt	5,184,943	5,190,509
Redeemable preferred stock at redemption value	17,652	18,861
Total capitalization	9,712,257	9,654,358
Current liabilities		
Short-term debt	333,786	269,985
Current portion of long-term debt	115,924	115,919
Accounts payable	166,723	279,613
Taxes accrued	51,152	35,555
Interest accrued	101,101	53,810
Other	189,646	239,950
Total current liabilities	958,332	994,832
Regulatory and other long-term liabilities		
Advances for construction	379,280	379,737
Deferred income taxes	1,518,408	1,471,153
Deferred investment tax credits	27,533	27,909
Regulatory liabilities	370,340	364,181
Accrued pension expense	448,563	461,647
Accrued postretirement benefit expense	253,318	254,147
Other	98,777	114,876
Total regulatory and other long-term liabilities	3,096,219	3,073,650
Contributions in aid of construction	1,002,408	996,136
Commitments and contingencies (See Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 14,769,216	\$ 14,718,976

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

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Consolidated Statements of Operations and Comprehensive Income (Unaudited)****(In thousands, except per share data)**

	Three Months Ended March 31,	
	2013	2012
Operating revenues	\$ 636,137	\$ 618,554
Operating expenses		
Operation and maintenance	312,203	310,004
Depreciation and amortization	99,649	92,104
General taxes	60,146	57,121
(Gain) loss on asset dispositions and purchases	(94)	(413)
Total operating expenses, net	471,904	458,816
Operating income	164,233	159,738
Other income (expenses)		
Interest, net	(78,114)	(79,654)
Allowance for other funds used during construction	3,396	4,362
Allowance for borrowed funds used during construction	1,653	2,081
Amortization of debt expense	(1,581)	(1,266)
Other, net	(776)	(616)
Total other income (expenses)	(75,422)	(75,093)
Income from continuing operations before income taxes	88,811	84,645
Provision for income taxes	31,168	35,393
Income from continuing operations	57,643	49,252
Loss from discontinued operations, net of tax	0	(7,498)
Net income	\$ 57,643	\$ 41,754
Other comprehensive income, net of tax:		
Pension plan amortized to periodic benefit cost:		
Prior service cost, net of tax of \$28 and \$28, respectively	43	44
Actuarial loss, net of tax of \$1,424 and \$1,167, respectively	2,228	1,825
Foreign currency translation adjustment	(366)	259
Other comprehensive income	1,905	2,128
Comprehensive income	\$ 59,548	\$ 43,882
Basic earnings per common share:(a)		
Income from continuing operations	\$ 0.32	\$ 0.28
Loss from discontinued operations, net of tax	\$ 0.00	\$ (0.04)

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Net income	\$ 0.32	\$ 0.24
Diluted earnings per common share:(a)		
Income from continuing operations	\$ 0.32	\$ 0.28
Loss from discontinued operations, net of tax	\$ 0.00	\$ (0.04)
Net income	\$ 0.32	\$ 0.24
Average common shares outstanding during the period:		
Basic	177,327	175,914
Diluted	178,465	177,028
Dividends per common share	\$ 0.00	\$ 0.23

(a) Amounts may not sum due to rounding.

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

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

(In thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 57,643	\$ 41,754
Adjustments		
Depreciation and amortization	99,649	92,104
Provision for deferred income taxes	29,446	39,669
Amortization of deferred investment tax credits	(376)	(380)
Provision for losses on accounts receivable	3,041	2,357
Allowance for other funds used during construction	(3,396)	(4,362)
(Gain) loss on asset dispositions and purchases	(94)	(413)
Pension and non-pension postretirement benefits	19,518	20,141
Stock-based compensation expense	2,042	2,268
Other, net	(8,160)	(5,649)
Changes in assets and liabilities		
Receivables and unbilled utility revenues	18,775	12,650
Taxes receivable, including income taxes	(3,543)	4,370
Other current assets	(12,060)	(12,038)
Pension and non-pension post retirement benefit contributions	(29,766)	(40,427)
Accounts payable	(37,278)	(45,684)
Taxes accrued, including income taxes	14,854	20,055
Interest accrued	47,291	43,818
Change in book overdraft	(21,960)	0
Other current liabilities	(26,001)	(22,134)
Net cash provided by operating activities	149,625	148,099
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(213,086)	(233,366)
Acquisitions	(2,836)	(104)
Proceeds from sale of assets and securities	280	461,375
Removal costs from property, plant and equipment retirements, net	(10,721)	(10,927)
Net funds (restricted) released	(1,347)	12,627
Net cash provided by (used in) investing activities	(227,710)	229,605
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,378	14,372
Repayment of long-term debt	(2,392)	(6,229)
Net borrowings (repayments) under short-term debt agreements	63,801	(347,951)
Proceeds from issuances of employee stock plans and DRIP	8,141	9,634
Advances and contributions for construction, net of refunds of \$4,477 and \$3,607 at March 31, 2013 and 2012, respectively	5,105	7,820
Change in bank overdraft position	0	(20,570)
Redemption of preferred stocks	(1,200)	(1,100)
Dividends paid	0	(40,414)
Other	0	2,029

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Net cash provided by (used in) financing activities	74,833	(382,409)
Net increase (decrease) in cash and cash equivalents	(3,252)	(4,705)
Cash and cash equivalents at beginning of period	24,433	14,207
Cash and cash equivalents at end of period	\$ 21,181	\$ 9,502
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at quarter-end	\$ 81,455	\$ 75,755
Non-cash financing activity:		
Advances and contributions	\$ 2,756	\$ 1,182
Dividends accrued	\$ 0	\$ 40,526

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

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Consolidated Statement of Changes in Stockholders' Equity (Unaudited)**

(In thousands, except per share data)

	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock At Cost	Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Total Stockholders Equity
Balance at December 31, 2012	176,988	\$ 1,770	\$ 6,222,644	\$ (1,664,955)	\$ (116,191)	0	\$ 0	\$ 1,720	\$ 4,444,988
Net income				57,643					57,643
Direct stock reinvestment and purchase plan, net of expense of \$5	10	0	387						387
Employee stock purchase plan	25	0	989			0	0		989
Stock-based compensation activity	651	7	8,795	(9)		(132)	(5,043)		3,750
Other comprehensive income, net of tax of \$1,452					1,905				1,905
Balance at March 31, 2013	177,674	\$ 1,777	\$ 6,232,815	\$ (1,607,321)	\$ (114,286)	(132)	\$ (5,043)	\$ 1,720	\$ 4,509,662

	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock At Cost	Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Total Stockholders Equity
Balance at December 31, 2011	175,664	\$ 1,757	\$ 6,180,558	\$ (1,848,801)	\$ (97,677)	0	\$ 0	\$ 4,547	\$ 4,240,384
Net income				41,754					41,754
Direct stock reinvestment and purchase plan, net of expense of \$1	17	0	570						570
Employee stock purchase plan	0	0	132			31	1,046		1,178
Stock-based compensation activity	519	5	11,166	(165)		(31)	(1,046)		9,960
Other comprehensive income, net of tax of \$1,195					2,128				2,128
Dividends				(40,538)					(40,538)
Balance at March 31, 2012	176,200	\$ 1,762	\$ 6,192,426	\$ (1,847,750)	\$ (95,549)	0	\$ 0	\$ 4,547	\$ 4,255,436

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

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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 accompanying Consolidated Balance Sheet of American Water Works Company, Inc. and Subsidiary Companies (the "Company") at March 31, 2013, the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2013 and 2012, the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and the Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2013 and 2012, are unaudited, but reflect all adjustments, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in stockholders' equity, the consolidated results of operations and comprehensive income, and the consolidated cash flows for the periods presented. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Because they cover interim periods, the unaudited consolidated financial statements and related notes to the consolidated financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Consolidated Financial Statements and related Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. 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.

Certain reclassifications have been made to previously reported data to conform to the current presentation.

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:

Balance Sheet Offsetting

In December 2011, the Financial Accounting Standards Board ("FASB") issued accounting guidance to amend the existing disclosure requirements for offsetting financial assets and liabilities to enhance current disclosures, as well as to improve comparability of balance sheets prepared under U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"). In January 2013, the FASB issued additional guidance on the scope of these disclosures. The revised disclosure guidance applies to derivative instruments and securities borrowing and lending transactions that are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The revised disclosure guidance is effective on a retrospective basis for interim and annual periods beginning January 1, 2013. As this guidance provides for additional disclosure requirements only, the adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB updated the accounting guidance related to testing indefinite-lived intangible assets for impairment. This update permits an entity to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test under current guidance. This update is effective for annual and interim impairment tests performed by the Company beginning on January 1, 2013. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB updated accounting guidance to add new disclosure requirements for items reclassified out of accumulated other comprehensive income. The update does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The amendments are required to be applied prospectively for interim and annual reporting periods.

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beginning January 1, 2013. As this guidance provides for additional disclosure requirements only, the adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

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The following recently announced accounting standards are not yet required to be adopted by the Company or included in the consolidated results of operations, financial position or footnotes of the Company:

Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. Examples of obligations within the scope of the updated guidance include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the following: (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The updated guidance also includes additional disclosures regarding the nature and amount of the obligation as well as other information about those obligations. The update is effective on a retrospective basis for interim and annual periods beginning January 1, 2014. Early adoption is permitted. The Company is evaluating the specific provisions of the updated guidance, but does not expect the adoption of this guidance to have a significant impact on the Company's results of operations, financial position or cash flows.

Foreign Currency Matters

In March 2013, the FASB issued guidance for a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. The amendments resolve differing views in practice and apply to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or a business within a foreign entity. The update is effective prospectively for interim and annual periods beginning January 1, 2014. Early adoption is permitted. The Company does not expect the adoption of the updated guidance to have a significant impact on its results of operations, financial position or cash flows.

Note 3: Acquisitions and Divestitures**Acquisitions**

As of March 31, 2013, the Company closed on five acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of \$2,836. Assets acquired, principally plant, totaled \$3,535. Liabilities assumed, primarily contributions in aid of construction, totaled \$699.

Divestitures

As part of the Company's strategic review of its business investments, prior to 2012 it had entered into agreements to sell its Arizona, New Mexico and Ohio subsidiaries.

In January 2012, the Company completed the close of the sale of its Arizona and New Mexico subsidiaries. Initial sales proceeds were \$461,057, and the Company recorded no gain or loss at the time of the sale closing.

A summary of discontinued operations presented in the Consolidated Statements of Operations and Comprehensive Income follows:

	March 31, 2012
Operating revenues	\$ 16,217
Total operating expenses, net	12,453
Operating income	3,764
Other income (expenses), net	(120)
Income from discontinued operations before income taxes	3,644
Provision for income taxes	11,142

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Loss from discontinued operations	\$ (7,498)
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Provision for income taxes includes the recognition of \$9,705 of tax expense related to the inside basis differences of Arizona and New Mexico that resulted in a taxable gain, since an IRS 338 (h)(10) election was made to treat the sale as an asset sale.

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The Company's annual goodwill impairment test is conducted at November 30 of each calendar year. Interim reviews are performed when the Company determines that a triggering event that would more likely than not reduce the fair value of a reporting unit below its carrying value has occurred.

The following table summarizes the three-month changes in goodwill of the Company's continuing operations by reporting unit:

	Regulated Unit		Market-Based Units			Consolidated	
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Total Net
Balance at January 1, 2013	\$ 3,411,549	\$ (2,332,670)	\$ 235,990	\$ (107,619)	\$ 3,647,539	\$ (2,440,289)	\$ 1,207,250
Reclassifications and other activity	(89)	0	0	0	(89)	0	(89)
Balance at March 31, 2013	\$ 3,411,460	\$ (2,332,670)	\$ 235,990	\$ (107,619)	\$ 3,647,450	\$ (2,440,289)	\$ 1,207,161
Balance at January 1, 2012	\$ 3,399,368	\$ (2,332,670)	\$ 235,990	\$ (107,619)	\$ 3,635,358	\$ (2,440,289)	\$ 1,195,069
Reclassifications and other activity	0	0	0	0	0	0	0
Balance at March 31, 2012	\$ 3,399,368	\$ (2,332,670)	\$ 235,990	\$ (107,619)	\$ 3,635,358	\$ (2,440,289)	\$ 1,195,069

Note 5: Stockholders' Equity**Common Stock**

In March 2010, the Company established American Water Stock Direct, a dividend reinvestment and direct stock purchase plan (the "DRIP"). Under the DRIP, stockholders may reinvest cash dividends and purchase additional Company common stock, up to certain limits, through a transfer agent without commission fees. The Company's transfer agent may buy newly issued shares directly from the Company or shares held in the Company's treasury. The transfer agent may also buy shares in the public markets or in privately negotiated transactions. Purchases generally will be made and credited to DRIP accounts once each week. As of March 31, 2013, there were 4,803 shares available for future issuance under the DRIP.

The following table summarizes information regarding issuances under the DRIP for the three months ended March 31, 2013 and 2012:

	2013	2012
Shares of common stock issued	10	17
Cash proceeds received	\$ 392	\$ 571

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Cash dividend payments made during the three month periods ended March 31 were as follows:

	2013	2012
Dividends per share, three months ended: March 31	\$ 0	\$ 0.23
Total dividends paid, three months ended: March 31	\$ 0	\$ 40,414

Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended March 31, 2013:

	Defined Benefit Plans				Total Accumulated Other Comprehensive Loss
	Employee Benefit Plan Funded Status	Prior Service Cost	Actuarial Loss	Foreign Currency Translation	
Beginning balance at January 1, 2013	\$ (143,183)	\$ 539	\$ 22,239	\$ 4,214	\$ (116,191)
Other comprehensive income (loss) before reclassifications	0	0	0	(366)	(366)
Amounts reclassified from accumulated other comprehensive income	0	43	2,228	0	2,271
Other comprehensive income (loss) for the period	0	43	2,228	(366)	1,905
Ending balance at March 31, 2013	\$ (143,183)	\$ 582	\$ 24,467	\$ 3,848	\$ (114,286)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive income (loss) directly to net income in its entirety. These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 9)

Stock-Based Compensation

The Company has granted stock option and restricted stock unit awards to non-employee directors, officers and other key employees of the Company pursuant to the terms of its 2007 Omnibus Equity Compensation Plan (the "Plan"). As of March 31, 2013, a total of 9,631 shares were available for grant under the Plan. Shares issued under the Plan may be authorized but unissued shares of Company stock or reacquired shares of Company stock, including shares purchased by the Company on the open market for purposes of the Plan.

The Company recognizes compensation expense for stock awards over the vesting period of the award. The following table presents stock-based compensation expense recorded in operation and maintenance expense in the accompanying Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2013 and 2012:

	2013	2012
Stock options	\$ 752	\$ 846
Restricted stock units	1,157	1,290
Employee stock purchase plan	133	132
Stock-based compensation in operation and maintenance expense	2,042	2,268
Income tax benefit	(796)	(884)
After-tax stock-based compensation expense	\$ 1,246	\$ 1,384

There were no significant stock-based compensation costs capitalized during the three months ended March 31, 2013 and 2012, respectively.

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Stock Options

In the first three months of 2013, 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, 2013. 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.

On April 1, 2013, the Company granted 28 non-qualified options, with a grant date fair value of \$5.64 per share, to its new Chief Financial Officer. Stock-based compensation expense at March 31, 2013 does not include the value of these options.

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, 2013:

Dividend yield	2.53%
Expected volatility	23.61%
Risk-free interest rate	0.71%
Expected life (years)	4.3
Exercise price	\$ 39.45
Grant date fair value per share	\$ 5.79

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, 2013, \$4,486 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.8 years.

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The table below summarizes stock option activity for the three months ended March 31, 2013:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2013	2,635	\$ 25.77		
Granted	320	39.45		
Forfeited or expired	(8)	34.15		
Exercised	(297)	23.23		
Options outstanding at March 31, 2013	2,650	\$ 27.68	4.4	\$ 36,477
Exercisable at March 31, 2013	1,711	\$ 24.02	3.6	\$ 29,796

The following table summarizes additional information regarding stock options exercised during the three months ended March 31, 2013 and 2012:

	2013	2012
Intrinsic value	\$ 4,995	\$ 4,662
Exercise proceeds	6,893	8,197
Income tax benefit	1,418	1,214

Restricted Stock Units

During 2010, the Company granted selected employees 255 restricted stock units with internal performance measures and, separately, certain market thresholds. These awards vested in January 2013. 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 thresholds were not met, awards would be cancelled. In January 2013, an additional 148 restricted stock units were granted and distributed because performance was exceeded and 19 restricted stock units were cancelled because thresholds were not met.

In the first three months of 2013, the Company granted restricted stock units, both with and without performance conditions, to certain employees under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1, 2013 and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1, 2013 (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.

On April 1, 2013, the Company granted 47 restricted stock units, with a grant date fair value of \$41.27 per share, and 6 restricted stock units, with a per-share grant date fair value of \$39.90, to its new Chief Financial Officer. The value of these restricted stock units is not included in stock-based compensation expense at March 31, 2013.

Weighted-average assumptions used in the Monte Carlo simulation are as follows for restricted stock units with market conditions granted through March 31, 2013:

Expected volatility	19.40%
Risk-free interest rate	0.40%
Expected life (years)	3

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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, 2013, \$8,686 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, 2013:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2013	540	\$ 29.48
Granted	335	32.52
Vested	(347)	23.52
Forfeited	(3)	37.40
Cancelled	(19)	21.98
Non-vested total at March 31, 2013	506	\$ 35.81

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The following table summarizes additional information regarding restricted stock units distributed during the three months ended March 31, 2013 and 2012:

	2013	2012
Intrinsic value	\$ 13,559	\$ 5,804
Income tax benefit	2,049	798

If dividends are declared 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 \$9 and \$165 to retained earnings during the three months ended March 31, 2013 and 2012, respectively.

Employee Stock Purchase Plan

Under the Nonqualified Employee Stock Purchase Plan (the "ESPP"), employees can use payroll deductions to acquire Company stock at the lesser of 90% of the fair market value of (a) the beginning or (b) the end of each three-month purchase period. As of March 31, 2013 there were 1,449 shares of common stock reserved for issuance under the ESPP. During the three months ended March 31, 2013, the Company issued 25 shares under the ESPP.

Note 6: Long-Term Debt

The Company primarily issues long-term debt to fund capital expenditures at the regulated subsidiaries. The components of long-term debt are as follows:

	Rate	Weighted Average Rate	Maturity Date	March 31, 2013	December 31, 2012
Long-term debt of American Water Capital Corp. (AWCC)(a)					
Private activity bonds and government funded debt					
Fixed rate	4.85%-6.75%	5.72%	2018-2040	\$ 322,610	\$ 322,610
Senior notes					
Fixed rate	4.30%-10.00%	6.08%	2013-2042	3,389,399	3,389,399
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate	0.00%-6.20%	4.71%	2013-2041	862,012	865,969
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2013-2039	678,500	678,500
Mandatory redeemable preferred stock	8.47%-9.75%	8.61%	2019-2036	19,352	20,552
Notes payable and other(b)	9.49%-12.17%	11.65%	2013-2026	1,190	1,272
Long-term debt				5,273,063	5,278,302
Unamortized debt discount, net(c)				38,289	39,272
Fair value adjustment to interest rate hedge				7,167	7,715
Total long-term debt				\$ 5,318,519	\$ 5,325,289

(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.

(b) Includes capital lease obligations of \$967 and \$1,049 at March 31, 2013 and December 31, 2012, respectively.

(c) Includes fair value adjustments previously recognized in acquisition purchase accounting.

