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American Water Works Company, Inc.  
Form 10-Q  
August 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

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AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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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 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.

Non-accelerated filer " Smaller reporting company "

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 July 31, 2014
Common Stock, \$0.01 par value per share	179,148,915 shares

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AMERICAN WATER WORKS COMPANY, INC.

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED June 30, 2014

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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)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of \$3,965,888 at June 30 and \$3,894,326 at December 31	\$ 12,445,097	\$ 12,244,359
Nonutility property, net of accumulated depreciation of \$243,330 at June 30 and \$228,465 at December 31	137,414	146,803
Total property, plant and equipment	12,582,511	12,391,162
Current assets		
Cash and cash equivalents	32,133	26,964
Restricted funds	21,537	28,505
Accounts receivable	277,780	244,568
Allowance for uncollectible accounts	(37,868)	(33,953)
Unbilled revenues	224,581	217,147
Income taxes receivable	6,290	5,778
Materials and supplies	36,845	32,973
Deferred income taxes	119,144	18,609
Other	27,193	28,408
Total current assets	707,635	568,999
Regulatory and other long-term assets		
Regulatory assets	848,352	858,465
Restricted funds	19,647	754
Goodwill	1,208,065	1,207,764
Other	60,237	60,998
Total regulatory and other long-term assets	2,136,301	2,127,981
<b>TOTAL ASSETS</b>	<b>\$ 15,426,447</b>	<b>\$ 15,088,142</b>

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)

	June 30, 2014	December 31, 2013
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization		
Common stock (\$0.01 par value, 500,000 shares authorized, 179,141 shares outstanding at June 30 and 178,379 at December 31)	\$ 1,791	\$ 1,784
Paid-in-capital	6,290,402	6,261,396
Accumulated deficit	(1,374,174 )	(1,495,698 )
Accumulated other comprehensive loss	(34,671 )	(34,635 )
Treasury stock	(10,222 )	(5,043 )
Total common stockholders' equity	4,873,126	4,727,804
Long-term debt		
Long-term debt	5,217,544	5,212,881
Redeemable preferred stock at redemption value	15,964	17,177
Total capitalization	10,106,634	9,957,862
Current liabilities		
Short-term debt	702,438	630,307
Current portion of long-term debt	15,030	14,174
Accounts payable	192,441	264,589
Taxes accrued	37,579	32,400
Interest accrued	55,545	52,087
Other	231,878	241,976
Total current liabilities	1,234,911	1,235,533
Regulatory and other long-term liabilities		
Advances for construction	370,123	375,729
Deferred income taxes	2,027,483	1,840,697
Deferred investment tax credits	25,711	26,408
Regulatory liabilities	382,511	373,319
Accrued pension expense	98,672	108,542
Accrued postretirement benefit expense	88,362	88,419
Other	37,712	38,929
Total regulatory and other long-term liabilities	3,030,574	2,852,043
Contributions in aid of construction	1,054,328	1,042,704
Commitments and contingencies (See Note 10)	—	—
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 15,426,447</b>	<b>\$ 15,088,142</b>

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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Operating revenues	\$759,159	\$724,265	\$1,441,105	\$1,360,402
Operating expenses				
Operation and maintenance	342,974	323,320	672,249	635,523
Depreciation and amortization	105,862	101,366	211,940	201,015
General taxes	56,894	57,806	117,661	117,952
(Gain) loss on asset dispositions and purchases	(345 )	(114 )	(615 )	(208 )
Total operating expenses, net	505,385	482,378	1,001,235	954,282
Operating income	253,774	241,887	439,870	406,120
Other income (expenses)				
Interest, net	(73,668 )	(77,757 )	(147,228 )	(155,871 )
Allowance for other funds used during construction	2,058	3,699	4,259	7,095
Allowance for borrowed funds used during construction	1,271	1,770	2,754	3,423
Amortization of debt expense	(1,629 )	(1,624 )	(3,302 )	(3,205 )
Other, net	(317 )	(256 )	(1,858 )	(1,032 )
Total other income (expenses)	(72,285 )	(74,168 )	(145,375 )	(149,590 )
Income before income taxes	181,489	167,719	294,495	256,530
Provision for income taxes	72,190	66,456	117,073	97,624
Net income	\$109,299	\$101,263	\$177,422	\$158,906
Other comprehensive income (loss), net of tax:				
Pension plan amortized to periodic benefit cost:				
Prior service cost, net of tax of \$26 and \$27 for the three months and \$53 and \$55 for the six months, respectively	42	44	83	87
Actuarial loss, net of tax of \$(5) and \$1,425 for the three months and \$(10) and \$2,849 for the six months, respectively	(8 )	2,227	(15 )	4,455
Foreign currency translation adjustment	446	(453 )	(104 )	(819 )
Other comprehensive income (loss)	480	1,818	(36 )	3,723
Comprehensive income	\$109,779	\$103,081	\$177,386	\$162,629
Basic earnings per share	\$0.61	\$0.57	\$0.99	\$0.89
Diluted earnings per share	\$0.61	\$0.57	\$0.99	\$0.89
Average common shares outstanding during the period				
Basic	178,863	177,716	178,702	177,522
Diluted	179,693	178,910	179,512	178,716
Dividends declared per common share	\$0.31	\$0.28	\$0.31	\$0.28



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, except per share data)

	Six Months Ended	
	June 30, 2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 177,422	\$ 158,906
Adjustments		
Depreciation and amortization	211,940	201,015
Provision for deferred income taxes	108,991	91,930
Amortization of deferred investment tax credits	(697 )	(751 )
Provision for losses on accounts receivable	17,014	9,056
Allowance for other funds used during construction	(4,259 )	(7,095 )
Gain on asset dispositions and purchases	(615 )	(208 )
Pension and non-pension postretirement benefits	12,038	39,036
Stock-based compensation expense	6,882	6,462
Other, net	19,751	(9,853 )
Changes in assets and liabilities		
Receivables and unbilled revenues	(53,745 )	(64,675 )
Taxes receivable, including income taxes	(512 )	(228 )
Other current assets	(13,969 )	(5,299 )
Pension and non-pension postretirement benefit contributions	(21,433 )	(59,493 )
Accounts payable	(55,626 )	(32,243 )
Taxes accrued, including income taxes	5,179	1,876
Interest accrued	3,458	721
Change in book overdraft	36,521	(12,870 )
Other current liabilities	2,275	(26,090 )
Net cash provided by operating activities	450,615	290,197
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(401,781)	(429,830)
Acquisitions	(2,869 )	(4,602 )
Proceeds from sale of assets	665	580
Removal costs from property, plant and equipment retirements, net	(31,366 )	(30,426 )
Net funds (restricted) released	(2,823 )	4,891
Net cash used in investing activities	(438,174)	(459,387)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	0	1,378
Repayment of long-term debt	(3,365 )	(5,709 )
Proceeds from short-term borrowings with maturities greater than three months	35,000	0
Repayment of short-term borrowings with maturities greater than three months	(256,000)	0
Net short-term borrowings with maturities less than three months	293,131	196,477
Proceeds from issuances of employee stock plans and DRIP	12,169	14,780
Advances and contributions for construction, net of refunds of \$10,459 and	8,401	10,861

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\$9,136 at June 30, 2014 and 2013, respectively		
Redemption of preferred stock	(1,200 )	(2,920 )
Dividends paid	(105,390)	(49,744 )
Other	9,982	0
Net cash (used in) provided by financing activities	(7,272 )	165,123
Net increase (decrease) in cash and cash equivalents	5,169	(4,067 )
Cash and cash equivalents at beginning of period	26,964	24,433
Cash and cash equivalents at end of period	\$32,133	\$20,366
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	\$115,127	\$94,889
Non-cash financing activity:		
Advances and contributions	\$6,060	\$6,681
Long-term debt issued	\$9,977	\$0
Long-term debt retired	\$(875 )	\$0

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, except per share data)

	Common Shares	Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Shares	Stock At Cost	Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Total Stockholders' Equity
Balance at December 31, 2013	178,379	\$1,784	\$6,261,396	\$(1,495,698)	\$(34,635 )	(132)	\$(5,043 )	\$0	\$4,727,804
Net income	0	0	0	177,422	0	0	0	0	177,422
Direct stock reinvestment									
and purchase plan, net of									
expense of									
\$14	23	0	1,017	0	0	0	0	0	1,017
Employee stock purchase									
plan	53	0	2,347	0	0	0	0	0	2,347
Stock-based compensation									
activity	686	7	25,642	(417 )	0	(122)	(5,179 )	0	20,053
Other comprehensive									
loss, net of									
tax of \$43	0	0	0	0	(36 )	0	0	0	(36 )
Dividends	0	0	0	(55,481 )	0	0	0	0	(55,481 )
Balance at June 30, 2014	179,141	\$1,791	\$6,290,402	\$(1,374,174)	\$(34,671 )	(254)	\$(10,222)	\$0	\$4,873,126

Common Stock

Accumulated  
Other Treasury Stock

Preferred Stock of  
Subsidiary  
Companies

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	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Shares	At Cost	Without Mandatory Redemption Requirements	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	0	0	0	158,906	0	0	0	0	158,906
Direct stock reinvestment									
and purchase plan, net of									
expense of \$22	23	0	892	0	0	0	0	0	892
Employee stock purchase plan	55	1	2,185	0	0	0	0	0	2,186
Stock-based compensation activity	877	8	18,130	(200)	0	(132)	(5,043)	0	12,895
Subsidiary preferred stock redemption	0	0	0	0	0	0	0	(1,720)	(1,720)
Other comprehensive income, net of tax									
of \$2,904	0	0	0	0	3,723	0	0	0	3,723
Dividends	0	0	0	(49,744)	0	0	0	0	(49,744)
Balance at June 30, 2013	177,943	\$1,779	\$6,243,851	\$(1,555,993)	\$(112,468)	(132)	\$(5,043)	\$0	\$4,572,126

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 accompanying Consolidated Balance Sheet of American Water Works Company, Inc. and Subsidiary Companies (the "Company") at June 30, 2014, the Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2014 and 2013, the Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013, and the Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2014 and 2013, 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, 2013. 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. In 2014 the Company revised the 2013 balance sheet to classify \$18,609 of deferred income taxes as current rather than non-current. The change in classification was not material to the previously issued financial statements.

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:

Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the Financial Accounting Standards Board ("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. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

## Foreign Currency Matters

In June 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. The adoption of this guidance did not have an impact on the Company's results of operations, financial position or cash flows.

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

## Service Concession Arrangements

In January 2014, the 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. This update should be applied on a modified retrospective basis to service concession arrangements that exist at the beginning of an entity's fiscal year of adoption. This requires



the cumulative effect of applying the update to be recognized as an adjustment to the opening retained earnings balance for the annual period of adoption. The update is effective for interim and annual periods beginning January 1, 2015. 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.

#### Reporting Discontinued Operations

In April 2014, the FASB issued guidance that changes 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 for new disposals after January 1, 2015 and early adoption is permitted for new disposals that have not yet been reported in financial statements. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

#### 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 January 1, 2017 and 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 Company is evaluating the new guidance, the best transition method and the impact the new standard will have on its 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 guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier 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: Acquisitions

##### Acquisitions

During the six-month period ended June 30, 2014, the Company closed on five acquisitions: four regulated water systems and one regulated water and wastewater system. The aggregate purchase price of these acquisitions totaled \$2,869. Assets acquired, principally plant, totaled \$5,985. Liabilities assumed totaled \$3,117, including contributions in aid of construction of \$1,425 and debt of \$1,683.

Note 4: Goodwill

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 Company has determined no such triggering event had occurred during the six months ended June 30, 2014.

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The change in the Company's goodwill assets, as allocated between the reporting units is as follows:

	Regulated Unit		Market-Based Operations		Consolidated		Total Net
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	
Balance at January 1, 2014	\$3,412,063	\$(2,332,670 )	\$235,990	\$(107,619 )	\$3,648,053	\$(2,440,289 )	\$1,207,764
Goodwill from acquisitions	301	0	0	0	301	0	301
Balance at June 30, 2014	\$3,412,364	\$(2,332,670 )	\$235,990	\$(107,619 )	\$3,648,354	\$(2,440,289 )	\$1,208,065
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	86	0	0	0	86	0	86
Balance at June 30, 2013	\$3,411,635	\$(2,332,670 )	\$235,990	\$(107,619 )	\$3,647,625	\$(2,440,289 )	\$1,207,336

Note 5: Stockholders' Equity

Common Stock

Under American Water Stock Direct, a dividend reinvestment and direct stock purchase plan (the "DRIP"), stockholders may reinvest cash dividends and purchase additional Company common stock, up to certain limits, through the plan administrator without commission fees. The Company's plan administrator may buy newly issued shares directly from the Company or shares held in the Company's treasury. The plan administrator 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 June 30, 2014, there were 4,632 shares available for future issuance under the DRIP.

The following table summarizes information regarding issuances under the DRIP for the six months ended June 30, 2014 and 2013:

	2014	2013
Shares of common stock issued	23	23
Cash proceeds received	\$1,031	\$914

Cash dividend payments made during the three-month periods ended March 31 and June 30 were as follows:

	2014	2013
Dividends per share, three months ended:		
March 31	\$0.28	\$0.00
June 30	\$0.31	\$0.28
Total dividends paid, three months ended:		
March 31	\$49,968	\$0
June 30	\$55,422	\$49,744

The March 31, 2014 payment included \$49,909 of dividends accrued as of December 31, 2013.

On July 30, 2014, the Company declared a quarterly cash dividend of \$0.31 per share, payable on September 2, 2014 to shareholders of record as of August 11, 2014.

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Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended June 30, 2014 and 2013, respectively:

	Defined Benefit Plans Employee Benefit Plan	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Foreign Currency Translation	Total Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2014	\$(69,711 )	\$ 713	\$ 31,150	\$ 3,213	\$ (34,635 )
Other comprehensive income (loss) before					
reclassifications	0	0	0	(104 )	(104 )
Amounts reclassified from accumulated					
other					
comprehensive income (loss)	0	83	(15 )	0	68
Other comprehensive income (loss) for the					
period	0	83	(15 )	(104 )	(36 )
Ending balance at June 30, 2014	\$(69,711 )	\$ 796	\$ 31,135	\$ 3,109	\$ (34,671 )
Beginning balance at January 1, 2013	\$(143,183 )	\$ 539	\$ 22,239	\$ 4,214	\$ (116,191 )
Other comprehensive income (loss) before					
reclassifications	0	0	0	(819 )	(819 )
Amounts reclassified from accumulated					
other					
comprehensive income (loss)	0	87	4,455	0	4,542
Other comprehensive income (loss) for the					
period	0	87	4,455	(819 )	3,723
Ending balance at June 30, 2013	\$(143,183 )	\$ 626	\$ 26,694	\$ 3,395	\$ (112,468 )

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 June 30, 2014, a total of 8,797 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 and six months ended June 30, 2014 and 2013:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Stock options	\$702	\$1,100	\$1,357	\$1,852
Restricted stock units	3,321	3,177	5,240	4,334
Employee stock purchase plan	148	143	285	276
Stock-based compensation in operation and				
maintenance expense	4,171	4,420	6,882	6,462
Income tax benefit	(1,627)	(1,724)	(2,684)	(2,520)
After-tax stock-based compensation expense	\$2,544	\$2,696	\$4,198	\$3,942

There were no significant stock-based compensation costs capitalized during the six months ended June 30, 2014 and 2013, respectively.

## Stock Options

In the first six months of 2014, 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, 2014. 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 June 30, 2014:

Dividend yield	2.55 %
Expected volatility	17.75 %
Risk-free interest rate	1.06 %
Expected life (years)	3.6
Exercise price	\$44.29
Grant date fair value per share	\$4.57

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 June 30, 2014, \$2,971 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.5 years.

The table below summarizes stock option activity for the six months ended June 30, 2014:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2014	2,055	\$ 28.80		
Granted	491	44.29		
Forfeited or expired	(11 )	37.32		
Exercised	(350 )	25.95		
Options outstanding at June 30, 2014	2,185	\$ 32.69	4.3	\$ 36,614
Exercisable at June 30, 2014	1,320	\$ 27.14	3.2	\$ 29,454

The following table summarizes additional information regarding stock options exercised during the six months ended June 30, 2014 and 2013:

	2014	2013
Intrinsic value	\$6,691	\$9,246
Exercise proceeds	9,075	11,956
Income tax benefit	1,951	2,711

## Restricted Stock Units

During 2011, the Company granted selected employees 189 restricted stock units with internal performance measures and, separately, certain market thresholds. These awards vested in January 2014. The terms of the grants specified that if certain performance on internal measures and market thresholds were achieved, the restricted stock units would vest; if performance were surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, awards would be cancelled. In January 2014, an additional 113 restricted stock units were granted and distributed because performance thresholds were exceeded.

In the first six months of 2014, 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, 2014 and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1, 2014 (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.



Weighted-average assumptions used in the Monte Carlo simulation are as follows for restricted stock units with market conditions granted through June 30, 2014:

Expected volatility	17.78%
Risk-free interest rate	0.75 %
Expected life (years)	3

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 June 30, 2014, \$9,529 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 1.2 years.

The table below summarizes restricted stock unit activity for the six months ended June 30, 2014: