American Water Works Company, Inc.
Form 10-Q
November 06, 2013

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 September 30, 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)

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. x 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). x 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	x	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 x 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 October 31, 2013
Common Stock, $0.01 par value per share	178,274,197 shares

TABLE OF CONTENTS

AMERICAN WATER WORKS COMPANY, INC.

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED September 30, 2013

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In thousands, except per share data)

	September 30, 2013	December 31, 2012
ASSETS		
Property, plant and equipment		
Utility plant at original cost, net of accumulated depreciation of $3,815,118 at September 30 and $3,657,221 at December 31	$ 11,963,377	$ 11,584,944
Nonutility property, net of accumulated depreciation of $223,953 at September 30 and $199,467 at December 31	149,190	154,420
Total property, plant and equipment	12,112,567	11,739,364
Current assets		
Cash and cash equivalents	32,454	24,433
Restricted funds	25,429	29,756
Accounts receivable	288,788	221,655
Allowance for uncollectible accounts	(32,241)	(26,874)
Unbilled revenues	209,865	180,628
Income taxes receivable	15,107	9,594
Materials and supplies	35,053	29,772
Other	38,765	30,483
Total current assets	613,220	499,447
Regulatory and other long-term assets		
Regulatory assets	1,232,447	1,199,114
Restricted funds	754	10,791
Goodwill	1,207,741	1,207,250
Other	61,717	63,010
Total regulatory and other long-term assets	2,502,659	2,480,165
TOTAL ASSETS	$ 15,228,446	$ 14,718,976

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In thousands, except per share data)

	September 30, 2013	December 31, 2012
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($.01 par value, 500,000 shares authorized, 178,121 and 176,988 shares outstanding at September 30 and December 31, respectively)	$ 1,781	$ 1,770
Paid-in-capital	6,251,286	6,222,644
Accumulated deficit	(1,505,191)	(1,664,955)
Accumulated other comprehensive loss	(109,901)	(116,191)
Treasury stock	(5,043)	0
Common stockholders equity	4,632,932	4,443,268
Preferred stock without mandatory redemption requirements	0	1,720
Total stockholders equity	4,632,932	4,444,988
Long-term debt		
Long-term debt	5,174,077	5,190,509
Redeemable preferred stock at redemption value	17,635	18,861
Total capitalization	9,824,644	9,654,358
Current liabilities		
Short-term debt	389,435	269,985
Current portion of long-term debt	113,661	115,919
Accounts payable	209,768	279,613
Taxes accrued	46,268	35,555
Interest accrued	101,291	53,810
Other	281,050	239,950
Total current liabilities	1,141,473	994,832
Regulatory and other long-term liabilities		
Advances for construction	372,484	379,737
Deferred income taxes	1,744,330	1,545,513
Deferred investment tax credits	26,783	27,909
Regulatory liabilities	380,757	364,181
Accrued pension expense	434,031	461,647
Accrued postretirement benefit expense	251,637	254,147
Other	36,475	40,516
Total regulatory and other long-term liabilities	3,246,497	3,073,650
Contributions in aid of construction	1,015,832	996,136
Commitments and contingencies (See Note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	$ 15,228,446	$ 14,718,976

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

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating revenues	$ 829,196	$ 831,815	$ 2,189,598	$ 2,195,976
Operating expenses				
Operation and maintenance	343,610	355,126	979,133	992,707
Depreciation and amortization	102,734	96,219	303,749	280,652
General taxes	58,209	52,861	176,161	165,264
(Gain) loss on asset dispositions and purchases	768	(31)	560	(657)
Total operating expenses, net	505,321	504,175	1,459,603	1,437,966
Operating income	323,875	327,640	729,995	758,010
Other income (expenses)				
Interest, net	(77,389)	(76,616)	(233,260)	(236,000)
Allowance for other funds used during construction	2,800	3,735	9,895	13,173
Allowance for borrowed funds used during construction	1,679	1,548	5,102	5,942
Amortization of debt expense	(1,524)	(1,322)	(4,729)	(3,949)
Other, net	(449)	39	(1,481)	(242)
Total other income (expenses)	(74,883)	(72,616)	(224,473)	(221,076)
Income from continuing operations before income taxes	248,992	255,024	505,522	536,934
Provision for income taxes	98,327	100,913	195,951	216,908
Income from continuing operations	150,665	154,111	309,571	320,026
Loss from discontinued operations, net of tax	0	(299)	0	(17,434)
Net income	$ 150,665	$ 153,812	$ 309,571	$ 302,592
Other comprehensive income, net of tax:				
Pension plan amortized to periodic benefit cost:				
Prior service cost, net of tax of $28 and $28 for the three months and $83 and $84 for the nine months ended, respectively	$ 43	$ 44	$ 130	$ 132
Actuarial loss, net of tax of $1,424 and $1,167 for the three months and $4,273 and $3,501 for the nine months ended, respectively	2,228	1,825	6,683	5,476
Foreign currency translation adjustment	296	514	(523)	562
Other comprehensive income	2,567	2,383	6,290	6,170
Comprehensive income	$ 153,232	$ 156,195	$ 315,861	$ 308,762
Basic earnings per common share:(a)				
Income from continuing operations	$ 0.85	$ 0.87	$ 1.74	$ 1.81
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.10)
Net income	$ 0.85	$ 0.87	$ 1.74	$ 1.72
Diluted earnings per common share:(a)				
Income from continuing operations	$ 0.84	$ 0.87	$ 1.73	$ 1.80

Loss from discontinued operations, net of tax	$	0.00	$	(0.00)	$	0.00	$	(0.10)
Net income	$	0.84	$	0.86	$	1.73	$	1.70
Average common shares outstanding during the period:								
Basic		177,965		176,621		177,671		176,290
Diluted		179,154		177,841		178,906		177,486
Dividends per common share	$	0.28	$	0.25	$	0.56	$	0.73

(a) Amounts may not sum due to rounding.

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows (Unaudited)

(In thousands, except per share data)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 309,571	$ 302,592
Adjustments		
Depreciation and amortization	303,749	280,652
Provision for deferred income taxes	195,240	197,001
Amortization of deferred investment tax credits	(1,126)	(1,139)
Provision for losses on accounts receivable	18,369	15,946
Allowance for other funds used during construction	(9,895)	(13,173)
(Gain) loss on asset dispositions and purchases	560	(657)
Pension and non-pension postretirement benefits	58,552	60,426
Stock-based compensation expense	8,916	8,549
Other, net	(12,100)	(15,289)
Changes in assets and liabilities		
Receivables and unbilled revenues	(109,372)	(106,911)
Taxes receivable, including income taxes	(5,513)	(143)
Other current assets	(13,410)	(15,671)
Pension and non-pension postretirement benefit contributions	(77,664)	(96,036)
Accounts payable	(28,061)	(47,121)
Taxes accrued, including income taxes	9,934	33,721
Interest accrued	47,481	46,617
Change in book overdraft	(7,993)	36,206
Other current liabilities	1,438	49,444
Net cash provided by operating activities	688,676	735,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(665,262)	(680,357)
Acquisitions	(16,554)	(44,333)
Proceeds from sale of assets and securities	749	560,095
Removal costs from property, plant and equipment retirements, net	(49,639)	(38,606)
Net funds (restricted) released	11,339	17,845
Net cash used in investing activities	(719,367)	(185,356)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	2,737	14,730
Repayment of long-term debt	(13,149)	(261,309)
Proceeds from short-term borrowings with maturities greater than three months	20,000	0
Net borrowings (repayments) under short-term debt agreements with maturities three months or less	99,450	(183,190)
Proceeds from issuances of employee stock plans and DRIP	19,788	22,062
Advances and contributions for construction, net of refunds of $16,671 and $10,748 at September 30, 2013 and 2012, respectively	13,486	22,182
Change in bank overdraft position	0	(34,812)

Debt issuance costs		(1,126)		0
Redemption of preferred stocks		(2,920)		(3,927)
Dividends paid		(99,554)		(125,023)
Other		0		3,953
Net cash provided by (used in) financing activities		38,712		(545,334)
Net increase in cash and cash equivalents		8,021		4,324
Cash and cash equivalents at beginning of period		24,433		14,207
Cash and cash equivalents at end of period	$	32,454	$	18,531
Non-cash investing activity:				
Capital expenditures acquired on account but unpaid at quarter-end	$	119,807	$	118,215
Non-cash financing activity:				
Advances and contributions	$	9,379	$	9,185
Dividends accrued	$	49,837	$	44,187
Long-term debt	$	0	$	68,746

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statement of Changes in Stockholders Equity (Unaudited)

(In thousands, except per share data)

	Common Stock					Treasury Stock			
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	At Cost	Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Tota Stockho Equi
ce at ber 31, 2012	176,988	$ 1,770	$ 6,222,644	$ (1,664,955)	$ (116,191)	0	$ 0	$ 1,720	$ 4,444
come	0	0	0	309,571	0	0	0	0	309
stock stment and se plan, net of e of $41	35	0	1,399	0	0	0	0	0	1
yee stock se plan	81	1	3,270	0	0	0	0	0	3
based nsation y, net of e of $11	1,017	10	23,973	(416)	0	(132)	(5,043)	0	18
iary preferred edemption	0	0	0	0	0	0	0	(1,720)	(1
ehensive e, net of tax of	0	0	0	0	6,290	0	0	0	6
nds	0	0	0	(149,391)	0	0	0	0	(149
ce at nber 30, 2013	178,121	$ 1,781	$ 6,251,286	$ (1,505,191)	$ (109,901)	(132)	$ (5,043)	$ 0	$ 4,632

	Common Stock					Treasury Stock			
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	At Cost	Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Tota Stockho Equi

ce at nber 31, 2011	175,664	$ 1,757	$ 6,180,558	$ (1,848,801)	$ (97,677)	0	$ 0	$ 4,547	$ 4,240
come	0	0	0	302,592	0	0	0	0	302
stock stment and se plan, net of se of $14	42	0	1,445	0	0	0	0	0	1
yee stock se plan	57	0	2,161	0	0	31	1,046	0	3
based nsation y	985	10	28,874	(662)	0	(31)	(1,046)	0	27
iary preferred edemption	0	0	0	0	0	0	0	(2,827)	(2
ehensive e, net of tax of	0	0	0	0	6,170	0	0	0	6
nds	0	0	0	(128,807)	0	0	0	0	(128
ce at nber 30, 2012	176,748	$ 1,767	$ 6,213,038	$ (1,675,678)	$ (91,507)	0	$ 0	$ 1,720	$ 4,449

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 September 30, 2013, the Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, the Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, and the Consolidated Statements of Changes in Stockholders Equity for the nine months ended September 30, 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 (AOCI)

In February 2013, the FASB updated accounting guidance to add new disclosure requirements for items reclassified out of AOCI. 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 AOCI 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 AOCI 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 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.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss (NOL) or Tax Credit Carryforward Exists

In July 2013, the FASB updated the income tax accounting guidance to resolve diversity in presentation by addressing when an entity should present unrecognized tax benefits on a net basis if there are available NOL or tax credit carryforwards. The update requires an entity to net unrecognized tax benefits against the deferred tax assets for same-jurisdiction NOL or similar tax loss carryforwards or tax credit carryforwards. Gross presentation will be required only if such carryforwards are not available or would not be used by the entity to settle any additional income taxes resulting from disallowance of the uncertain tax position. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments are required to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application and early adoption are permitted. The Company adopted this guidance effective June 30, 2013. (See Note 8)

Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In July 2013, the FASB updated the derivatives and hedging accounting guidance to provide for the inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate (OIS)) as a US benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct Treasury obligations of the US government (UST) and the London Interbank Offered Rate ("LIBOR"). The amendment also removes the restriction on using different benchmark rates for similar hedges. The update is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. As the Company has not entered into new or redesignated hedging relationships, 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 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 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. 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

For the period ended September 30, 2013, the Company closed on 12 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $16,554. Assets acquired, principally plant, totaled $23,048. Liabilities assumed, primarily contributions in aid of construction, totaled $6,494.

Divestitures

As part of the Company s strategic review of its business investments, it entered into agreements to sell its Arizona, New Mexico and Ohio subsidiaries. In January 2012, the Company completed 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. In June 2012, as part of post-closing adjustments to finalize the sale, the Company remitted $2,448 to the purchaser and recorded a pretax loss on sale for the same amount.

In May 2012, the Company completed the sale of its Ohio subsidiary. Sales proceeds at closing totaled $101,083. The Company recorded a pretax loss on sale of $5,166 in the second quarter of 2012, primarily due to pension settlement costs calculated at closing.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating revenues	$ 0	$ 0	$ 0	$ 19,377
Total operating expenses, net	0	493	0	28,411
Operating income (loss)	0	(493)	0	(9,034)
Other income (expenses), net	0	0	0	(167)
Income (loss) from discontinued operations before income taxes	0	(493)	0	(9,201)
Provision (benefit) for income taxes	0	(194)	0	8,233
Income (loss) from discontinued operations	$ 0	$ (299)	$ 0	$ (17,434)

Provision for income taxes includes the recognition of tax expense related to the difference between the tax basis and book basis of assets upon the sale of Arizona, New Mexico and Ohio that resulted in taxable gains, since an election was made under Section 338(h)(10) of the Internal Revenue Code to treat the sales as asset sales.

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 nine months ended September 30, 2013.

The following table summarizes the nine-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
	405	0	0	0	405	0	405

Goodwill from acquisitions							
Reclassifications and other activity	86	0	0	0	86	0	86
Balance at September 30, 2013	$ 3,412,040	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,648,030	$ (2,440,289)	$ 1,207,741
Balance at January 1, 2012	$ 3,399,368	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,635,358	$ (2,440,289)	$ 1,195,069
Goodwill from acquisitions	12,503	0	0	0	12,503	0	12,503
Balance at September 30, 2012	$ 3,411,871	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,647,861	$ (2,440,289)	$ 1,207,572

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 September 30, 2013, there were 4,672 shares available for future issuance under the DRIP.

The following table summarizes information regarding issuances under the DRIP for the nine months ended September 30, 2013 and 2012:

	2013	2012
Shares of common stock issued	35	42
Cash proceeds received	$ 1,440	$ 1,459

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

	2013	2012
Dividends per share, three months ended:		
March 31	$ 0.00	$ 0.23
June 30	0.28	0.23
September 30	0.28	0.25
Total dividends paid, three months ended:		
March 31	$ 0	$ 40,414
June 30	49,744	40,529
September 30	49,810	44,080

On September 27, 2013, the Company declared a quarterly cash dividend of $0.28 per share payable on December 2, 2013 to all shareholders of record as of November 15, 2013. As of September 30, 2013, the Company had accrued dividends totaling $49,837 included in other current liabilities on the accompanying Consolidated Balance Sheets.

Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the nine months ended September 30, 2013:

	Defined Benefit Plans				
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Foreign Currency Translation	Total Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2013	$ (143,183)	$ 539	$ 22,239	$ 4,214	$ (116,191)
Other comprehensive income (loss) before reclassifications	0	0	0	(523)	(523)
	0	130	6,683	0	6,813

Amounts reclassified from accumulated other comprehensive income					
Other comprehensive income (loss) for the period	0	130	6,683	(523)	6,290
Ending balance at September 30, 2013	$ (143,183)	$ 669	$ 28,922	$ 3,691	$ (109,901)

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 September 30, 2013, a total of 9,600 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 nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	$ 628	$ 783	$ 2,480	$ 2,489
Restricted stock units	1,681	2,365	6,015	5,669
Employee stock purchase plan	145	138	421	391
Stock-based compensation in operation and maintenance expense	2,454	3,286	8,916	8,549
Income tax benefit	(957)	(1,281)	(3,477)	(3,334)
After-tax stock-based compensation expense	$ 1,497	$ 2,005	$ 5,439	$ 5,215

There were no significant stock-based compensation costs capitalized during the nine months ended September 30, 2013 and 2012, respectively.

Stock Options

In the first nine 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.

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 September 30, 2013:

Dividend yield	2.52%
Expected volatility	23.50%
Risk-free interest rate	0.70%
Expected life (years)	4.3
Exercise price	$ 39.60
Grant date fair value per share	$ 5.78

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 September 30, 2013, $2,883 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.3 years.

The table below summarizes stock option activity for the nine months ended September 30, 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	348	39.60		
Forfeited or expired	(59)	33.71		
Exercised	(650)	23.84		
Options outstanding at September 30, 2013	2,274	$ 28.23	3.9	$ 29,684
Exercisable at September 30, 2013	1,397	$ 24.17	3.0	$ 23,905

The following table summarizes additional information regarding stock options exercised during the nine months ended September 30, 2013 and 2012:

	2013	2012
Intrinsic value	$ 10,999	$ 11,433
Exercise proceeds	15,499	17,966
Income tax benefit	3,138	3,124

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 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 2013, an additional 148 restricted stock units were granted and distributed because performance was exceeded and 19 restricted stock units were cancelled because performance thresholds were not met.

In the first nine months of 2013, 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, 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.

Weighted-average assumptions used in the Monte Carlo simulation are as follows for restricted stock units with market conditions granted through September 30, 2013:

Expected volatility	19.37%
Risk-free interest rate	0.40%
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 September 30, 2013, $6,370 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 1.1 years.

The table below summarizes restricted stock unit activity for the nine months ended September 30, 2013:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2013	540	$ 29.48
Granted	405	34.06
Vested	(364)	24.41
Forfeited	(20)	37.60

Cancelled	(19)		21.98
Non-vested total at September 30, 2013	542	$	36.28

The following table summarizes additional information regarding restricted stock units distributed during the nine months ended September 30, 2013 and 2012:

	2013	2012
Intrinsic value	$ 13,983	$ 6,159
Income tax benefit	2,049	799

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 $416 and $662 to retained earnings during the nine months ended September 30, 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 September 30, 2013 there were 1,393 shares of common stock reserved for issuance under the ESPP. During the nine months ended September 30, 2013, the Company issued 81 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	September 30, 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%	4.74%	2014-2041	854,875	865,969
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2015-2039	676,500	678,500
Mandatorily redeemable preferred stock	8.47%-9.75%	8.61%	2019-2036	19,352	20,552
Notes payable and other(b)	9.87%-12.17%	11.92%	2013-2026	1,032	1,272
Long-term debt				5,263,768	5,278,302
Unamortized debt discount, net(c)				36,324	39,272
Fair value adjustment to interest rate hedge				5,281	7,715
Total long-term debt				$ 5,305,373	$ 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 $918 and $1,049 at September 30, 2013 and December 31, 2012, respectively.
(c) Includes fair value adjustments previously recognized in acquisition purchase accounting.

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount

Other subsidiaries	Private activity bonds and government funded debt fixed rate	1.59%-2.41%	2031-2033	$ 2,737
Total issuances				$ 2,737

The Company also assumed $103 of debt via an acquisition in the second quarter of 2013.

The following long-term debt was retired through optional redemption or payment at maturity during 2013:

Company	Type	Interest Rate	Maturity	Amount
Other subsidiaries(1)	Private activity bonds and government funded debt fixed rate	0.00%-5.50%	2013-2041	$ 13,934
Other subsidiaries	Mortgage bonds fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other	Notes payable and other			240
Total retirements and redemptions				$ 17,374

(1) Includes $3,025 of non-cash defeasance via use of restricted funds.

Interest income included in interest, net is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income	$ 2,935	$ 2,837	$ 8,615	$ 8,470

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:

Balance sheet classification	September 30, 2013	December 31, 2012
Regulatory and other long-term assets		
Other	$ 5,240	$ 7,909
Long-term debt		
Long-term debt	5,281	7,715

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 September 30,		Nine Months Ended September 30,	
Income Statement Classification	2013	2012	2013	2012
Interest, net				
Gain (loss) on swap	$ 385	$ 1,121	$ (2,669)	$ 2,384
(Loss) gain on borrowing	(246)	(800)	2,434	(2,072)
Hedge Ineffectiveness	139	321	(235)	312

On September 10, 2013, the Company announced a tender offer for its 6.085% Senior Notes due 2017 (the Notes). The offer was contingent upon the satisfaction of certain conditions. These conditions were satisfied concurrent with the expiration of the offer on October 7, 2013, whereupon the Company agreed to repurchase $225,800 in aggregate principal amount of the Notes that had been validly tendered. On October 8, 2013, the Company paid $271,798 to effect the tender, which, in addition to the principal, included $6,603 of accrued interest and a repurchase premium of $39,395. In October 2013, the Company recorded a loss on debt extinguishment of $40,582, which included the repurchase premium, a write-off of $525 for unamortized debt issuance costs and transaction fees of $662.

Note 7: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $389,435 (net of discount of $65) at September 30, 2013 and $269,985 (net of discount of $15) at December 31, 2012. Included in the September 30, 2013 balance was an August 2013 borrowing for $20,000 that matures in February 2014.

On September 9, 2013, AWCC and its lenders agreed to increase total commitments under AWCC s revolving credit facility from $1,000,000 to $1,250,000. In addition, $1,180,000 of the credit facility was extended from its original termination date of October 2017 to October 2018. Other terms and conditions of the existing facility remained unchanged. The Company incurred $1,126 of issuance costs through September 30, 2013 in connection with the increased lending commitments; these costs will be amortized over the remaining extended life of the credit facility.

At the same time, the Company also announced an increase in the maximum borrowing capability of its commercial paper program from $700,000 to $1,000,000.

Note 8: Income Taxes

The Company s estimated annual effective tax rate for the nine months ended September 30, 2013 was 39.7% compared to 40.2% for the nine months ended September 30, 2012, excluding various discrete items.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Actual effective tax rate on continuing operations	39.5%	39.6%	38.8%	40.4%

Included in 2013 are discrete items including $3,274 of tax benefits associated with an entity reorganization within the Company s Market-Based segment that allowed for the utilization of state net operating loss carryforwards and the release of a valuation allowance.

The Company adopted updated income tax accounting guidance at June 30, 2013, and as a result, reclassified $74,360 of unrecognized tax benefit from other long-term liabilities to deferred income taxes at December 31, 2012 to conform to the current presentation in the accompanying Consolidated Balance Sheets.

Note 9: Pension and Other Postretirement Benefits

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Components of net periodic pension benefit cost:				
Service cost	$ 9,468	$ 8,507	$ 28,404	$