

American Water Works Company, Inc.  
Form 10-Q  
May 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Class	Outstanding as of April 28, 2016
Common Stock, \$0.01 par value per share	177,714,495 shares

(excludes 3,721,496 treasury shares as of April 28, 2016)

TABLE OF CONTENTS

AMERICAN WATER WORKS COMPANY, INC.

Quarterly REPORT ON FORM 10-Q

FOR THE QUARTER ENDED March 31, 2016

INDEX

<u>FORWARD LOOKING STATEMENTS</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS</u>	3
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	30
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	30
<u>PART II. OTHER INFORMATION</u>	31
<u>ITEM 1. LEGAL PROCEEDINGS</u>	31
<u>ITEM 1A. RISK FACTORS</u>	31
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	32
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	32
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	32
<u>ITEM 5. OTHER INFORMATION</u>	32
<u>ITEM 6. EXHIBITS</u>	33
<u>SIGNATURES</u>	34
<u>EXHIBIT INDEX</u>	35

## FORWARD-LOOKING STATEMENTS

We have made statements in Part I, Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Quarterly Report on Form 10-Q (“Form 10-Q”), that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as “intend,” “plan,” “estimate,” “believe,” “anticipate,” “expect,” “predict,” “project,” “assume,” “forecast,” “outlook,” “future,” “objective,” “potential,” “continue,” “seek to,” “may,” “can,” “should,” “will” and “could” or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things, our future financial performance, including our operation and maintenance (“O&M”) efficiency ratio, cash flows, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our projected strategy to finance current operations and growth initiatives, the impact of legal proceedings and potential fines and penalties, business process and technology improvement initiatives, trends in our industry, regulatory or legal developments or rate adjustments, including rate case filings, filings for infrastructure surcharges and filings to address regulatory lag.

Forward-looking statements are predictions based on our current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results or levels of activity, performance or achievements, and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates and assumptions, and known and unknown risks, uncertainties and other factors. Our actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness of regulatory commissions’ actions concerning rates, permitting and other decisions;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;
  - changes in laws, governmental regulations and policies, including environmental, health and safety, water quality and public utility regulations and policies;
- weather conditions, patterns, events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes and tornados;
- the outcome of litigation and government action related to the Freedom Industries spill in West Virginia;
- our ability to appropriately maintain current infrastructure, including our technology systems, and manage expansion of our business;
- our ability to obtain permits and other approvals for projects;
- changes in our capital requirements;
- our ability to control operating expenses and to achieve efficiencies in our operations;
- the intentional or unintentional actions of a third party, including contamination of our water supplies and attacks on, or infiltration of or other disruptions to, our computer systems or other critical infrastructure;
- our ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations;
- our ability to successfully meet growth projections for our business and capitalize on growth opportunities, including our ability to, among other things:
  - acquire and integrate water and wastewater systems into our regulated operations; and
  - enter into contracts and other agreements with, or otherwise acquire, new customers in our market-based businesses, including with respect to the provision of water services to customers in the natural gas exploration and production market;
    - cost overruns relating to improvements in or the expansion of our operations;

- our ability to maintain safe work sites;
  - our exposure to liabilities related to environmental law and similar matters resulting from, among other things, the provision of water services to customers in the natural gas exploration and production market;
- changes in general economic, business and financial market conditions;

1

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- access to sufficient capital on satisfactory terms and when and as needed to support operations and capital expenditures;
- fluctuations in interest rates;
- restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends;
- fluctuations in the value of benefit plan assets and liabilities that could increase our cost and funding requirements;
- changes in federal or state income tax laws, including tax reform, the availability of tax credits and tax abatement programs, and our ability to utilize our U.S. and state net operating loss carryforwards;
- migration of customers into or out of our service territories;
- the use by municipalities of the power of eminent domain or other authority to condemn our systems;
- difficulty in obtaining, or the inability to obtain, insurance at acceptable rates and on acceptable terms and conditions;
- the incurrence of impairment charges related to our goodwill or other assets;
- labor actions, including work stoppages and strikes;
- ability to retain and attract qualified employees; and
- civil disturbances or terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

These forward-looking statements are qualified by, and should be read together with, the risk factors and other statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 (“Form 10-K”), and in this Form 10-Q, and investors should refer to such risk factors and other statements in evaluating such forward-looking statements. Any forward-looking statements we make speak only as of the date this Form 10-Q was filed with the United States Securities and Exchange Commission. Except as required by the federal securities laws, we do not have any obligation, and we specifically disclaim any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for us to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on our businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In millions, except share and per share data)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Property, plant and equipment	\$ 18,745	\$ 18,504
Accumulated depreciation	(4,647 )	(4,571 )
Property, plant and equipment, net	14,098	13,933
Current assets:		
Cash and cash equivalents	66	45
Restricted funds	22	21
Accounts receivable, net	220	255
Unbilled revenues	247	267
Materials and supplies	41	38
Other	42	31
Total current assets	638	657
Regulatory and other long-term assets:		
Regulatory assets	1,289	1,271
Goodwill	1,313	1,302
Other	79	78
Total regulatory and other long-term assets	2,681	2,651
<b>TOTAL ASSETS</b>	<b>\$ 17,417</b>	<b>\$ 17,241</b>

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 millions, except share and per share data)

	March 31, 2016	December 31, 2015
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
Common stock (\$0.01 par value, 500,000,000 shares authorized, 181,408,112 and 180,907,483 shares outstanding, respectively)	\$ 2	\$ 2
Paid-in-capital	6,368	6,351
Accumulated deficit	(991 )	(1,073 )
Accumulated other comprehensive loss	(87 )	(88 )
Treasury stock, at cost (3,672,671 and 2,625,112 shares, respectively)	(210 )	(143 )
Total common stockholders' equity	5,082	5,049
Long-term debt	5,850	5,862
Redeemable preferred stock at redemption value	11	12
Total long-term debt	5,861	5,874
Total capitalization	10,943	10,923
Current liabilities:		
Short-term debt	839	628
Current portion of long-term debt	54	54
Accounts payable	116	126
Accrued liabilities	368	493
Taxes accrued	58	26
Interest accrued	96	62
Other	83	144
Total current liabilities	1,614	1,533
Regulatory and other long-term liabilities:		
Advances for construction	352	349
Deferred income taxes, net	2,358	2,310
Deferred investment tax credits	23	24
Regulatory liabilities	407	402
Accrued pension expense	342	342
Accrued postretirement benefit expense	168	169
Other	70	68
Total regulatory and other long-term liabilities	3,720	3,664
Contributions in aid of construction	1,140	1,121
Commitments and contingencies (see Note 9)	—	—
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 17,417</b>	<b>\$ 17,241</b>



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

4

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## American Water Works Company, Inc. and Subsidiary Companies

## Consolidated Statements of Operations (Unaudited)

(In millions, except per share data)

	For the Three Months Ended March 31,	
	2016	2015
Operating revenues	\$743	\$698
Operating expenses:		
Operation and maintenance	348	324
Depreciation and amortization	116	107
General taxes	66	64
Gain on asset dispositions and purchases	(1 )	(1 )
Total operating expenses, net	529	494
Operating income	214	204
Other income (expense):		
Interest, net	(80 )	(75 )
Other, net	2	4
Total other income (expense)	(78 )	(71 )
Income from continuing operations before income taxes	136	133
Provision for income taxes	54	53
Net income attributable to common stockholders	\$82	\$80
Basic earnings per share:		
Net income attributable to common stockholders	\$0.46	\$0.45
Diluted earnings per share:		
Net income attributable to common stockholders	\$0.46	\$0.44
Weighted average common shares outstanding:		
Basic	178	179
Diluted	179	180
Dividends declared per common share	\$—	\$—

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



American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)

	For the Three Months Ended March 31, 2016 2015	
Net income attributable to common stockholders	\$82	\$ 80
Other comprehensive income (loss), net of tax:		
Pension amortized to periodic benefit cost:		
Actuarial loss, net of tax of \$1 in 2016 and 2015	1	1
Foreign currency translation adjustment	1	(1 )
Unrealized loss on cash flow hedges, net of tax of \$(1) in 2016	(1 )	—
Net other comprehensive income (loss)	1	—
Comprehensive income attributable to common stockholders	\$83	\$ 80

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 millions)

	For the Three Months Ended March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$82	\$80
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	116	107
Deferred income taxes and amortization of investment tax credits	52	34
Provision for losses on accounts receivable	6	8
Gain on asset dispositions and purchases	(1 )	(1 )
Pension and non-pension postretirement benefits	15	15
Other non-cash, net	(24 )	(13 )
Changes in assets and liabilities:		
Receivables and unbilled revenues	49	(9 )
Pension and non-pension postretirement benefit contributions	(14 )	(13 )
Accounts payable and accrued liabilities	15	2
Other assets and liabilities, net	(49 )	(12 )
Net cash provided by operating activities	247	198
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(284)	(226)
Acquisitions	(22 )	—
Proceeds from sale of assets and securities	1	1
Removal costs from property, plant and equipment retirements, net	(17 )	(14 )
Net funds restricted	(1 )	(7 )
Net cash used in investing activities	(323)	(246)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of long-term debt	(11 )	(4 )
Net short-term borrowings with maturities less than three months	211	95
Proceeds from issuances of employee stock plans and DRIP	10	6
Advances and contributions for construction, net of refunds of \$5 and \$4, respectively	7	5
Debt issuance costs	(1 )	—
Dividends paid	(61 )	(56 )
Anti-dilutive stock repurchases	(62 )	—
Tax benefit realized from equity compensation	4	3
Net cash provided by financing activities	97	49
Net increase in cash and cash equivalents	21	1
Cash and cash equivalents as of beginning of period	45	23

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Cash and cash equivalents as of end of period	\$66	\$24
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of end of period	\$166	\$134

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In millions)

	Common Stock	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock At Cost	Total Stockholders' Equity
Balance as of December 31, 2015	180.9	\$ 2	\$6,351	\$ (1,073	)\$		