KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
TABLE OF CONTENTS - FILING REQUIREMENTS

KENTUCKY-AMERICAN WATER COMPANY
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For electronic version, see KAW_APP_TABLE_OF_CONTENTS_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 1

Description of Filing Requirement:

Present Tariffs

Response:

Please see attached for copy of Present Tariffs.

For electronic version, see KAW_APP_EX01_012916.pdf.

P.S.C.Ky.No.6

Cover Sheet and Original Sheets:

Nos. 5, 7, 8, 14 through 19, 20.1, 21, 24.1, 26, 29 through 49, 58, 58.6, 59, 63, 64, and Appendix A;

First Revised Sheet Nos. 2, 4, 6, 9, 10, 11, 12, 13, 24, 25, 28, 51, 53.1, 54, 58.4, 60, 61, 62, 65;

Second Revised Sheet Nos. 2, 22, 23, 50.3, 57, 58.1, 58.2, 58.3, 58.5;

Third Revised Sheet No. 27, 50.1, 50.2, 55, 56;

Fourth Revised Sheet Nos. 3.1;

Fifth Revised Sheet No. 20, 52.1;

Seventh Revised Sheet Nos. 28.1, 28.2;

Fourteenth Revised Sheet Nos. 3, 55.1;

Twenty-Seventh Revised Sheet No. 53;

Thirtieth Revised Sheet No. 52;

Thirty-Second Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD, LEXINGTON, KENTUCKY
http://www.amwater.com/kyaw
FOR SERVICE IN KENTUCKY COUNTIES OF
BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,
JESSAMINE, OWEN, SCOTT AND WOODFORD
FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED:	**July 14, 2015**
EFFECTIVE:	**August 13, 2015**

ISSUED BY: **/s/Cheryl D. Norton**
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
8/13/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

<u>Index</u> (Cont'd.)

Service Classification No.6 -

(D) Indicates discontinued tariff
(N) Indicates new text/tariff
(T) Indicates change in text

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

ISSUED: November 14, 2013

EFFE[illegible], 2013

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Seventh Revised Sheet No. 28.1
Canceling Sixth Revised Sheet No. 28.1

0001012210013524033000000000000010637016

1 KENTUCKY AMERICAN WATER
PO Box 371880, Pittsburgh, PA 15250-7880

2 **Account Number**	1012-210012345678
3(T) **Due Date**	November 14, 2012
4(T) **Total Due**	$106.37
5 **If Paid After Due Date**	$108.16 after 11/14/12

6 **For Service To:** 433 E MAXWELL ST

7(T) **Amount Enclosed** $

8(T) ☐ Check this box for address changes and note new address on back.

9 **KENTUCKY AMERICAN WATER**
PO BOX 371880
PITTSBURGH, PA 15250-7880

10(T) **JOHN B. DOE**
1 FIRST STREET
LEXINGTON, KY 40504

Please return this portion with your payment.

12(T) **BILLING PERIOD AND METER READINGS**

- 13(T) Billing date: October 30, 2012
- 14(T) Due Date: November 14, 2012
- 15(T) Billing period: Sep 28 to Oct 30 (33 Days)
- 16(T) Next reading on or about: Dec 03, 2012
- 17(T) Customer Type: Residential
- 18(T) Meter Reading Measurement: 1 unit = 100 CF or 748 gallons of water
- 19(T) Billing Measurement: 100 gallons (CGL)

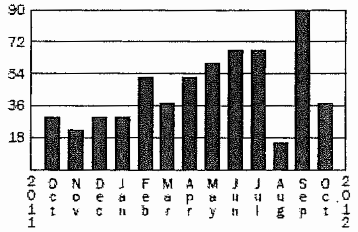
20(T)	**Meter No.**	88918456N
21(T)	**Size of meter**	5/8"
22(T)	**Current Read**	160 (Actual)
23(T)	**Previous Read**	155 (Actual)
24(T)	**Total water used this billing period**	5 units (3,740 gallons)

25(T) **Total Water Use Comparison** (in 100 gallons)

26(T)	Current billing period 2012:	37.40 CGL
27(T)	Same billing period 2011:	29.92 CGL

Billed Use Graph (100 gallons)

28(T)



29 **BILLING SUMMARY**

	Prior Balance	
30	• Balance from last bill	69.73
31(T)	**TOTAL PAST AMOUNT - DUE IMMEDIATELY**	**69.73**
32(T)	**Current Water Service**	
33(T)	• Water Service Charge	8.90
34(T)	• Water Usage Charge ($0.530040 x 37.40)	19.82
35(T)	• **Total Water Service Related Charges**	**28.72**
36(T)	**Other Charges**	
37(T)	• Georgetown Hydrant Fee	2.28
38(T)	• Water Late Payment Charge	3.49
39(T)	• **Total Other Charges**	**5.77**
40(T)	**Taxes**	
41(T)	• KRA Withdrawal Fee ($0.007165 x 37.40)	0.27
42(T)	• Franchise Fee	0.94
43(T)	• City School Tax	0.94
44(T)	• **Total Taxes**	**2.15**
45(T)	**TOTAL CURRENT CHARGES**	**36.64**
46(T)	**TOTAL AMOUNT DUE** ➡	**$106.37**

47(T)

Pay your bill online: www.water.paymybill.com

Pay by phone: 24-hours a day, every day at 1-888-422-5269

Pay in person: Residential customers may obtain a listing of payment locations by visiting www.amwater.com/myh2o

48(T) **Important messages from Kentucky American Water**

- This area will be used for important messages from American Water
- The due date pertains to current charges only. Any past due balance should be paid immediately.
- Copies of your annual water quality report (Consumer Confidence Report) can be obtained by visiting our website printed at the bottom of this bill.
- Need to update your contact information? Check out our self service options at www.amwater.com/myH2O

49(T) **Questions about this bill?** Call our 24-Hour Customer Service Center: **1-800-678-6301** www.kentuckyamwater.com
1000000003803

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
5/12/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

ISSUED: December 18, 2012 **EFFECTIVE:** May 1

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton
President

2300 Richmond Rd., Lexington, KY 40502
Address

(Continued)
Here is an explanation of the typical customer's bill.

1. Assumed Name for Kentucky American Water Company and payment mailing address
2. Customer Account Number – use this when making inquiries
3. (T) Date Payment is Due
4. (T) Total Amount Due or DO NOT PAY (if credit balance or paid through automatic withdrawal)
5. Amount Due if payment is late (with applicable late fee included)
6. Address where service is received
7. (T) Amount enclosed
8. (T) Are to request a change of address or telephone number
9. Address to mail payment
10. (T) Customer Name and Billing Address
11. (T) Please return this portion with your payment
12. (T) Billing Period & Meter Information
13. (T) Billing Date
14. (T) Due Date
15. (T) Billing Period and number of days of service
16. (T) Next reading on or about
17. (T) Customer Type
18. (T) Meter Reading Measurement
19. (T) Billing Measurement
20. (T) Meter Number
21. (T) Meter Size
22. (T) Current Meter Reading
23. (T) Previous Meter Reading
24. (T) Total Water Used This Billing Period
25. (T) Total Water Use Comparison (in 100 gallons)
26. (T) Current Billing Period Current Year
27. (T) Same Billing Period Prior Year
28. (T) Billed Use Graph (100 Gallons
29. Billing Summary
30. Balance from Last Bill
31. (T) Total Past Amount – Due Immediately
32. (T) Current Water Service
33. (T) Water Service Charge
34. (T) Water Usage
35. (T) Total Water Charges
36. (T) Other Charges
37. (T) Hydrant Fee
38. (T) Water Late Payment Charge
39. (T) Total Other Charges
40. (T) Taxes
41. (T) KRA (Kentucky River Authority) withdrawal Fee
42. (T) Franchise Fee
43. (T) City School Tax
44. (T) Total Taxes
45. (T) Total Current Charges
46. (T) Total Amount Due
47. (T) Bill Pay Information (Online/Phone/In Person)
48. (T) Messages from Kentucky American Water
49. (T) Customer Service, Emergency Phone Number, and Internet Address

(T) Indicates New Text Added

ISSUED: December 18, 2012

EFFECTIV 3

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

2300 Richmond Rd., Lexington, KY 40502
Address

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
5/12/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided for herein;

Customer Category	Rate Per 1,000 Gallons All consumption	Rate Per 100 Gallons All Consumption	Rate Per 100 Cubic Feet All Consumption
Residential	$5.30040	$0.5300	$3.9647
Commercial	4.82800	0.4828	3.6113
Industrial	3.89470	0.3895	2.9132
Municipal & Other Public Authority	4.24520	0.4245	3.1754
Sales for Resale	4.20930	0.4209	3.1486

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

	Size of Meter	Service Charge Per Month
(I)	5/8”	$12.49
(I)	3 /4”	18.74
(I)	1”	31.23
(I)	1-1 /2”	62.45
(I)	2”	99.92
(I)	3”	187.35
(I)	4”	312.25
(I)	6”	624.50
(I)	8”	999.20

(I) Indicates Increase

ISSUED: December 13, 2013

EFFECTIVE: December 24, 2013

ISSUED BY: /s/ Cheryl D. Norton
Cheryl D. Norton, President

2300 Richmond KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
~~JEFF R. DEROUEN~~
EXECUTIVE DIRECTOR
TARIFF BRANCH
EFFECTIVE
12/24/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

Size of Service	Rate Per Month	Rate Per Annum
2” Diameter	$ 8.92	$ 107.04
4” Diameter	35.90	430.80
6” Diameter	80.74	968.88
8” Diameter	143.54	1,722.48
10” Diameter	224.34	2,692.08
12” Diameter	323.50	3,882.00
14” Diameter	439.89	5,278.68
16” Diameter	574.42	6,893.04

Special Provisions

No charge shall be made for water used in extinguishing accidental fires or for Underwriters’ tests, and water shall not be drawn from a private fire service connection for any other purpose.

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed in Service Classification No. 1 shall also be charged.

(T) The charges under this provision are in addition to any general water service charges.

(T) signifies text change

ISSUED: **July 14, 2015**
EFFECTIVE: **August 13, 2015**

ISSUED BY: **/s/Cheryl D. Norton**
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
8/13/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees

Size of Meter Connected

(I)	5/8-Inch	$1,078.00
(I)	1-Inch	1,576.00
(I)	2-Inch	3,563.00
	Service larger than 2"	Actual Cost

For services greater than 2", a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

ISSUED: November 14, 2013

EFFECTIVE: July 27, 2013

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

2300 Richmond Road, Lexington, KY 40502

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates for Public Fire Service

	Rate Per Month	Rate Per Annum
For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	$41.60	$499.20

Rates for Private Service

For each private fire hydrant contracted for by Industries or Private Institutions.	$79.77	$957.24

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition, to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed In Service Classification No. 1 shall also be charged.

(T) The charges under this provision are in addition to any general water service charges.

Special Provisions

A few hydrants are connected to mains by a "special connection." A "special connection" exists when a customer and the Company entered into a service contract in which the customer agreed to maintain an unmetered water line from a Company main to the customer's service line. If the Company has reason to believe water from a special connection is being used for purposes other than fire protection, including that the connection or line is leaking, the Company may install a meter and charge for usage under this tariff. The Company may require the customer to pay for

(T) signifies text change

ISSUED: **July 14, 2015**
EFFECTIVE: **August 13, 2015**

ISSUED BY: **/s/Cheryl D. Norton**
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
EFFECTIVE
8/13/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Third Revised Sheet No. 55
Cancelling Second Revised Sheet No. 55

CLASSIFICATION OF SERVICE

SERVICE CLASSIFICATION NO. 6

APPLICABLE

(T) Applicable to the entire Service Territory of Kentucky-American Water Company.

AVAILABILITY OF SERVICE

Available for Residential, Commercial, Industrial, Public Service and Sales for Resale customers.

RATES

There shall be added to the Customer's bill, as a separate item, an amount equal to the proportionate part of any license, occupation, franchise, fee or other similar fee, charge or tax now or hereafter imposed upon the Company by local taxing authorities or the Kentucky River Authority, whether imposed by ordinance, franchise, statute or otherwise, and which fee, tax or charge is based upon Kentucky River water usage or a percentage of the gross receipts, net receipts, or revenues from sales of water or services rendered by the Company to the customer. Where more than one such charge, fee or tax is imposed, the total of such charges, fees or taxes applicable to a Customer may be billed to the customer as a single amount. Charges, fees or taxes herein referred to shall in all instances be billed to customers on the basis of Company rates or usage effective at the time of billing, and on the basis of the tax rate of usage effective at thetime billing is made.

There shall also be added to the Customer's bill, as a separate item, any fee, tax or charge imposed upon the customer by a municipality or governmental agency, the purpose of which is to allocate among those customers identified by ordinance, franchise, statute, or otherwise, the cost of fire hydrants imposed upon the municipality or governmental agency. Failure to pay this charge shall not constitute grounds for termination of service.

(T) Indicates Text Change

Issued: **February 29, 2008** **EFFECTIVE:** **April 1, 2008**

Issued by: Michael A. Miller
Michael A. Miller
Manager Rates & Regulation

1600 Pennsylvania Ave., Charleston, WV 25302
Address

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
4/1/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)

By
Executive Director

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Second Revised Sheet No. 58.1
Canceling First Revised Sheet No. 58.1

CUSTOMER SPECIFIC TARIFF CHARGES

Applicable

Applicable to customers in the Company's Northern Division formerly served by the Tri-Village Water District.

	Service Run	$23 ** (refer below)
	Collection of Delinquent Bill	$23
(I)	Reconnection Charge	$56
	Deposit for New Service	$40
	Returned Check Charge	$10

** This applies anytime the service men come to remove the meter for non-payment of the bill and the customer pays while they are there or tells them that they will come to the office to pay the bill.

(I) Indicates Increase

KENTUCKY
PUBLIC SERVICE COMMISSION

JEFF R. DEROUEN
EXECUTIVE DIRECTOR

TARIFF BRANCH

Brent Kirtley

EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

ISSUED: November 14, 2013

EFFECTIVE: J

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Second Revised Sheet No. 58.2
Canceling First Revised Sheet No. 58.2

CUSTOMER SPECIFIC TARIFF CHARGES

Applicable

Applicable to customers in the Company's Northern Division formerly served by the Elk Lake Shores Subdivision.

SERVICE RUN

The cost of a service run shall be $40.00. This applies anytime the service men come to remove the meter for non-payment of the bill and the customer pays while they are there or tells them that they will come to the office to pay the bill.

PENALTY CLAUSE

The rates, as listed, are net and all bills will be rendered in the net amount. A penalty of 10% shall be added to the bill if payment is not received by the 15th of the month. A penalty will be assessed only once on any bill for rendered service.

RETURNED CHECK FEE

Customer will be charged $10.00 on any returned checks.

RECONNECTION CHARGE

(I) A Reconnection Charge of $56.00 shall be made by the Company to cover the cost incurred for reconnecting the meter or service when the customer's service has been disconnected at his request, or for any other reason, as set forth in these Regulations.

METER REMOVAL CHARGE

A Meter Removal Charge of $56.00 shall be made when the customer's service has been disconnected at his request, or for any other reason, as set forth in these Regulations.

(I) Indicates Increase

ISSUED: November 14, 2013

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

EFFECTIVE: July 27, 2013

2300 Richmon[illegible]n, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 2

Description of Filing Requirement:

Proposed Tariffs

Response:

Please see attached for copy of Proposed Tariffs.

For electronic version, see KAW_APP_EX02_012916.pdf.

P.S.C.Ky.No.6

Cover Sheet and Original Sheets:

Nos. 5, 7, 8, 14 through 19, 20.1, 21, 24.1, 26, 29 through 49, 58, 58.6, 59, 63, 64, and Appendix A;

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Fourth Revised Sheet No. 55;

Fifth Revised Sheet Nos. 3.1, 20;

Sixth Revised Sheet No. 52.1;

Eighth Revised Sheet Nos. 28.1, 28.2;

Fourteenth Revised Sheet Nos. 3, 55.1;

Twenty-Eighth Revised Sheet No. 53;

Thirty-First Revised Sheet No. 52;

Thirty-Fourth Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD, LEXINGTON, KENTUCKY
http://www.amwater.com/kyaw
FOR SERVICE IN KENTUCKY COUNTIES OF
BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,
JESSAMINE, OWEN, SCOTT AND WOODFORD
FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED: **January 29, 2016**
EFFECTIVE: **February 28, 2016**

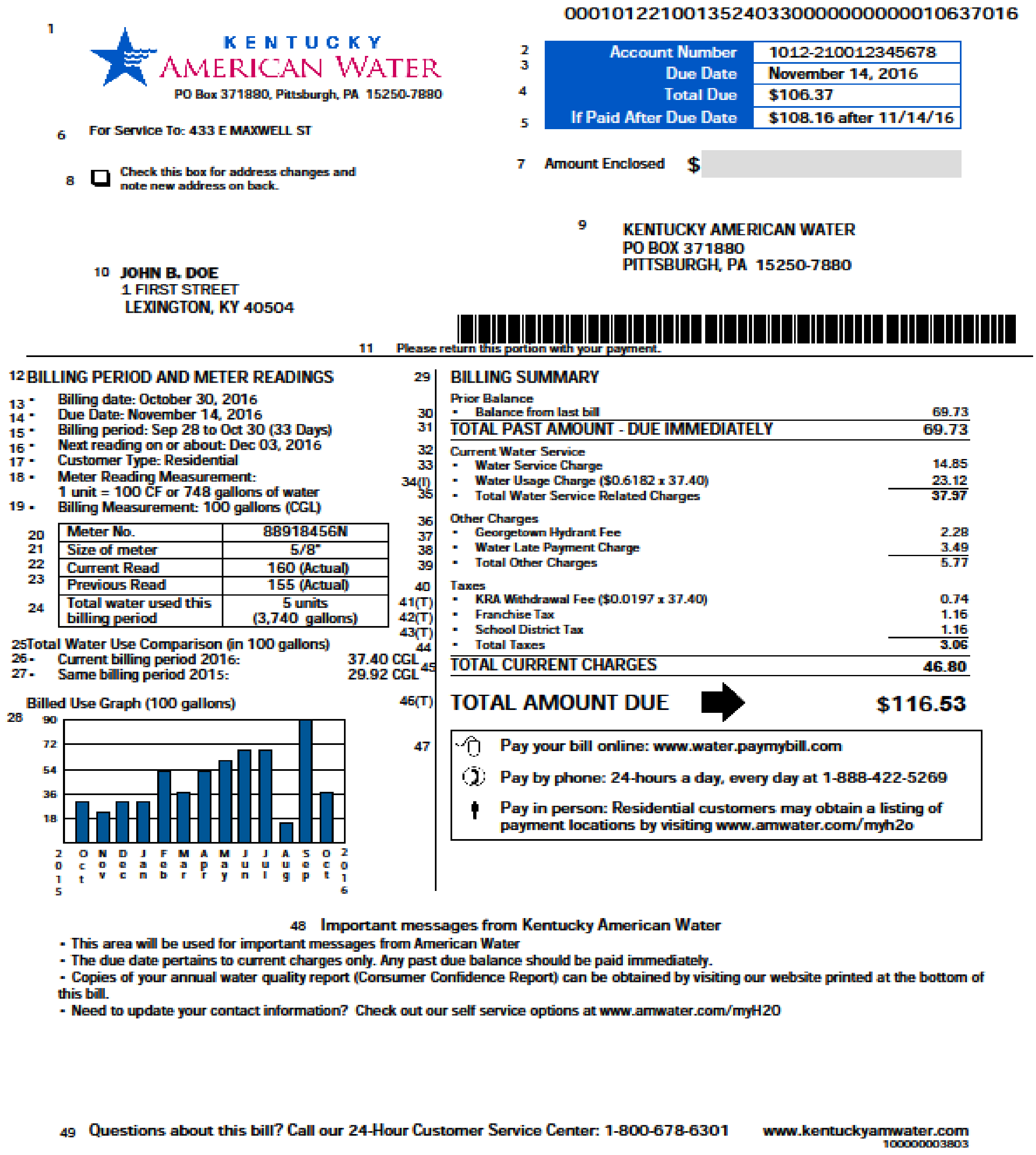
ISSUED BY: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

<u>Index</u> (Cont'd.)

(D) Indicates deletion
(N) Indicates new rate or requirement
(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502



00010122100135240330000000000010637016

1 KENTUCKY AMERICAN WATER
PO Box 371880, Pittsburgh, PA 15250-7880

6 For Service To: 433 E MAXWELL ST

8 ☐ Check this box for address changes and note new address on back.

2	Account Number	1012-210012345678
3	Due Date	November 14, 2016
4	Total Due	$106.37
5	If Paid After Due Date	$108.16 after 11/14/16

7 Amount Enclosed $

9 KENTUCKY AMERICAN WATER
PO BOX 371880
PITTSBURGH, PA 15250-7880

10 JOHN B. DOE
1 FIRST STREET
LEXINGTON, KY 40504

11 Please return this portion with your payment.

12 BILLING PERIOD AND METER READINGS

- 13 Billing date: October 30, 2016
- 14 Due Date: November 14, 2016
- 15 Billing period: Sep 28 to Oct 30 (33 Days)
- 16 Next reading on or about: Dec 03, 2016
- 17 Customer Type: Residential
- 18 Meter Reading Measurement:
  1 unit = 100 CF or 748 gallons of water
- 19 Billing Measurement: 100 gallons (CGL)

20	Meter No.	88918456N
21	Size of meter	5/8"
22	Current Read	160 (Actual)
23	Previous Read	155 (Actual)
24	Total water used this billing period	5 units (3,740 gallons)

25 Total Water Use Comparison (in 100 gallons)

- 26 Current billing period 2016: 37.40 CGL
- 27 Same billing period 2015: 29.92 CGL

Billed Use Graph (100 gallons)

29 BILLING SUMMARY

	Prior Balance	
30	• Balance from last bill	69.73
31	TOTAL PAST AMOUNT - DUE IMMEDIATELY	69.73
32	Current Water Service	
33	• Water Service Charge	14.85
34(I)	• Water Usage Charge ($0.6182 x 37.40)	23.12
35	• Total Water Service Related Charges	37.97
36	Other Charges	
37	• Georgetown Hydrant Fee	2.28
38	• Water Late Payment Charge	3.49
39	• Total Other Charges	5.77
40	Taxes	
41(T)	• KRA Withdrawal Fee ($0.0197 x 37.40)	0.74
42(T)	• Franchise Tax	1.16
43(T)	• School District Tax	1.16
44	• Total Taxes	3.06
45	TOTAL CURRENT CHARGES	46.80
46(T)	TOTAL AMOUNT DUE ➡	$116.53

47 Pay your bill online: www.water.paymybill.com

Pay by phone: 24-hours a day, every day at 1-888-422-5269

Pay in person: Residential customers may obtain a listing of payment locations by visiting www.amwater.com/myh2o

48 Important messages from Kentucky American Water

- This area will be used for important messages from American Water
- The due date pertains to current charges only. Any past due balance should be paid immediately.
- Copies of your annual water quality report (Consumer Confidence Report) can be obtained by visiting our website printed at the bottom of this bill.
- Need to update your contact information? Check out our self service options at www.amwater.com/myH20

49 Questions about this bill? Call our 24-Hour Customer Service Center: 1-800-678-6301 www.kentuckyamwater.com
100000003803

(I) Indicates Increase
(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Rd, Lexington, KY 40502

(Continued)
Here is an explanation of the typical customer's bill.

1. Assumed Name for Kentucky American Water Company and payment mailing address
2. Customer Account Number – use this when making inquiries
3. Date Payment is Due
4. Total Amount Due or DO NOT PAY (if credit balance or paid through automatic withdrawal)
5. Amount Due if payment is late (with applicable late fee included)
6. Address where service is received
7. Amount enclosed
8. Area to request a change of address or telephone number
9. Address to mail payment
10. Customer Name and Billing Address
11. Please return this portion with your payment
12. Billing Period & Meter Information
13. Billing Date
14. Due Date
15. Billing Period and number of days of service
16. Next reading on or about
17. Customer Type
18. Meter Reading Measurement
19. Billing Measurement
20. Meter Number
21. Meter Size
22. Current Meter Reading
23. Previous Meter Reading
24. Total Water Used This Billing Period
25. Total Water Use Comparison (in 100 gallons)
26. Current Billing Period Current Year
27. Same Billing Period Prior Year
28. Billed Use Graph (100 Gallons)
29. Billing Summary
30. Balance from Last Bill
31. Total Past Amount – Due Immediately
32. Current Water Service
33. Water Service Charge
34. Water Usage
35. (T) Total Water Service Related Charges
36. Other Charges
37. (T) Hydrant Fee (if applicable by local ordinance)
38. Water Late Payment Charge
39. Total Other Charges
40. Taxes
41. KRA (Kentucky River Authority) withdrawal Fee
42. (T) FranchiseTax (if applicable – rate% x Total Water Service Related Charges)
43. (T) School District Tax (if applicable – rate % x Total Water Service Related Charges)
44. Total Taxes
45. Total Current Charges
46. Total Amount Due
47. Bill Pay Information (Online/Phone/In Person)
48. Messages from Kentucky American Water
49. Customer Service, Emergency Phone Number, and Internet Address

(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/ Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Thirty-Fourth Revised Sheet No. 50
Canceling Thirty-Third Revised Sheet No. 50

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates
The following shall be the rates for consumption, in addition to the service charges provided for herein;

Customer Category	Rate Per 1,000 Gallons All consumption		Rate Per 100 Gallons All Consumption		Rate Per 100 Cubic Feet All Consumption	(D) (D) (D)
Residential	$6.1820	(I)	$0.6182	(I)	$3.9647	(D)
Commercial	5.3840	(I)	0.5384	(I)	3.6113	(D)
Industrial	4.7550	(I)	0.4755	(I)	2.9132	(D)
Municipal & Other Public Authority	4.9900	(I)	0.4990	(I)	3.1754	(D)
Sales for Resale	4.4510	(I)	0.4451	(I)	3.1486	(D)

Service Charges
All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

	Size of Meter	Service Charge Per Month
(I)	5/8”	$14.85
(I)	3 /4”	22.30
(I)	1”	37.10
(I)	1-1 /2”	74.30
(I)	2”	118.80
(I)	3”	222.80
(I)	4”	371.30
(I)	6”	742.50
(I)	8”	1,188.00

(I) Indicates Increase
(D) Indicates Deletion (removal of a rate per 100 Cubic Feet)

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/ Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky. No. 6
Thirty-First Revised Sheet No. 52
Canceling Thirtieth Sheet No. 52

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

	Size of Service	Rate Per Month	Rate Per Annum
(I)	2” Diameter	$ 9.37	$ 112.44
(I)	4” Diameter	37.70	452.40
(I)	6” Diameter	84.78	1,017.36
(I)	8” Diameter	150.72	1,808.64
(I)	10” Diameter	235.56	2,826.72
(I)	12” Diameter	339.68	4,076.16
(I)	14” Diameter	461.88	5,542.56
(I)	16” Diameter	603.14	7,237.68

Special Provisions

No charge shall be made for water used in extinguishing accidental fires or for Underwriters’ tests, and water shall not be drawn from a private fire service connection for any other purpose.

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed in Service Classification No. 1 shall also be charged.

The charges under this provision are in addition to any general water service charges.

(I) Indicates increase

ISSUED: **January 29, 2016**
EFFECTIVE: **February 28, 2016**

ISSUED BY: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees

Size of Meter Connected

(I)	5/8-Inch	$1,280.00
(I)	1-Inch	2,201.00
(I)	2-Inch	4,238.00
	Service larger than 2”	Actual Cost

For services greater than 2”, a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

ISSUED: November 14, 2013
EFFECTIVE: July 27, 2013

ISSUED BY: **_____/s/Nick O. Rowe_____**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates for Public Fire Service

		Rate Per Month	Rate Per Annum
(I)	For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	$48.00	$576.00

Rates for Private Service

	Rate Per Month	Rate Per Annum
For each private fire hydrant contracted for by Industries or Private Institutions.	$79.77	$957.24

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition, to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed In Service Classification No. 1 shall also be charged.

The charges under this provision are in addition to any general water service charges.

Special Provisions
A few hydrants are connected to mains by a “special connection.” A “special connection” exists when a customer and the Company entered into a service contract in which the customer agreed to maintain an unmetered water line from a Company main to the customer’s service line. If the Company has reason to believe water from a special connection is being used for purposes other than fire protection, including that the connection or line is leaking, the Company may install a meter and charge for usage under this tariff. The Company may require the customer to pay for

(I) Indicates increase

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Fourth Revised Sheet No. 55
Cancelling Third Sheet No. 55

CLASSIFICATION OF SERVICE

SERVICE CLASSIFICATION NO. 6

(T) BILLING OF LICENSE, OCCUPATION, FRANCHISE OR OTHER SIMILAR CHARGES OR TAXES INCLUDING SCHOOL TAX

APPLICABLE

Applicable to all customers in the City of Lexington, Fayette County, Kentucky and contiguous territory thereto.

AVAILABILITY OF SERVICE

Available for Residential, Commercial, Industrial, Public Service and Sales for Resale customers.

RATES

There shall be added to the Customer's bill, as a separate item, an amount equal to the proportionate part of any license, occupation, franchise, fee or other similar fee, charge or tax now or hereafter imposed upon the Company by local taxing authorities or the Kentucky River Authority, whether imposed by ordinance, franchise, statute or otherwise, and which fee, tax or charge is based upon Kentucky River water usage or a percentage of the gross receipts, net receipts, or revenues from sales of water or services rendered by the Company to the customer. Where more than one such charge, fee or tax is imposed, the total of such charges, fees or taxes applicable to a Customer may be billed to the customer as a single amount. Charges, fees or taxes herein referred to shall in all instances be billed to customers on the basis of Company rates or usage effective at the time of billing, and on the basis of the tax rate of usage effective at the time billing is made.

(T) There shall be added to the Customer's bill, as a separate item, an amount equal to the proportionate
(T) amount of school tax in any county requiring a utility gross receipts license tax for schools under KRS
(T) 160.613.

There shall also be added to the Customer's bill, as a separate item, any fee, tax or charge imposed upon the customer by a municipality or governmental agency, the purpose of which is to allocate among those customers identified by ordinance, franchise, statute, or otherwise, the cost of fire hydrants imposed upon the municipality or governmental agency. Failure to pay this charge shall not constitute grounds for termination of service.

(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

Issued by: /s/Nick O. Rowe
Nick O. Rowe, Vice President
2300 Richmond Road, Lexington, KY 40502

(D) **CUSTOMER SPECIFIC TARIFF CHARGES**

(D) **Applicable**

(D) Applicable to customers in the Company's Northern Division formerly served by the Tri-Village
(D) Water District.

(D)	Service Run	$23 ** (refer below)
(D)	Collection of Delinquent Bill	$23
(D)	Reconnection Charge	$56
(D)	Deposit for New Service	$40
(D)	Returned Check Charge	$10

(D) ** This applies anytime the service men come to remove the meter for non-payment of the bill and the
(D) customer pays while they are there or tells them that they will come to the office to pay the bill.

(D) Indicates deletion

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Third Revised Sheet No. 58.2
Canceling Second Revised Sheet No. 58.2

(D) **CUSTOMER SPECIFIC TARIFF CHARGES**

(D) **Applicable**

(D) Applicable to customers in the Company's Northern Division formerly served by the Elk Lake Shores
(D) Subdivision.

(D) **SERVICE RUN**

(D) The cost of a service run shall be $40.00. This applies anytime the service men come to remove the
(D) meter for non-payment of the bill and the customer pays while they are there or tells them that they will
(D) come to the office to pay the bill.

(D) **PENALTY CLAUSE**

(D) The rates, as listed, are net and all bills will be rendered in the net amount. A penalty of 10% shall be
(D) added to the bill if payment is not received by the 15th of the month. A penalty will be assessed only
(D) once on any bill for rendered service.

(D) **RETURNED CHECK FEE**

(D) Customer will be charged $10.00 on any returned checks.

(D) **RECONNECTION CHARGE**

(D) A Reconnection Charge of $56.00 shall be made by the Company to cover the cost incurred for
(D) reconnecting the meter or service when the customer's service has been disconnected at his request, or
(D) for any other reason, as set forth in these Regulations.

(D) **METER REMOVAL CHARGE**

(D) A Meter Removal Charge of $56.00 shall be made when the customer's service has been disconnected at
(D) his request, or for any other reason, as set forth in these Regulations.

(D) Indicates Deletion

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky. No. 6
First Revised Sheet No. 60
Canceling Original Sheet No. 60

(N) CLASSIFICATION OF SERVICE

(N) QUALIFIED INFRASTRUCTURE PROGRAM

(N) **Applicability:**

(N) In addition to the other charges provided for in this Tariff under Service Classifications Residential,
(N) Commercial, Industrial, Other Public Authority, Sales For Resale, and Private Fire, a QIP charge of
(N) ____% will apply.

(N) The above charge will be recomputed annually.

(N) **General Description:**

(N) To recover the fixed costs (pre-tax return and depreciation) of certain non-revenue producing distribution
(N) system improvement projects completed and placed in service on an annual prospective basis between
(N) base rate cases and recorded in the individual utility plant accounts, as noted below. The initial annual
(N) prospective QIP year will be the first full twelve month period following the Forecast Test Period utilized
(N) by the Commission in establishing Base Rates of the Company in its prior Base Rate Case proceeding.

(N) **QIP Eligible Utility Plant:**

(N) Distribution Infrastructure – replacement of distribution and transmission systems mains and valves
(N) installed as replacements for existing facilities; hydrants, services, meters and meter installations, and
(N) pumping equipment – installed as in-kind replacements; unreimbursed funds related to capital projects to
(N) relocate facilities required by governmental highway projects.

(N) **Determination of the Annual QIP Charge Percentage:**

(N) The QIP percentage shall be expressed as a percentage carried to two (2) decimal places. The QIP
(N) percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise
(N) applicable rates and charges. The QIP shall not be applied to any other surcharge or add-on taxes, or to
(N) any other revenues not recorded in a QIP base rate revenues account.

(N) The QIP percentage shall be calculated on annual prospective basis.

(N) Indicates new rate or requirement

Issued Date: January 29, 2016
Effective Date: February 28, 2016

Issued By: ___/s/Nick O. Rowe_________________
Nick O. Rowe, President
2300 Richmond Rd, Lexington, Kentucky 40502

(N) **CLASSIFICATION OF SERVICE**

(N) **QUALIFIED INFRASTRUCTURE PROGRAM**
(N) **(Continued)**

(N) **QIP percentage formula:**

(N) $$\text{QIP \%} = \frac{[\{((\text{NetQIP x PTROR}) + \text{NetDep} + \text{PT} + \text{R}\} \;/\; 1 - \text{RT}]}{\text{PAR}}$$

(N) Where:

(N) **QIP** % = **QIP percentage**

(N) **NetQIP** = The average forecasted cost of the investment in QIP plant (QIP additions net
(N) of associated QIP retirements) for the QIP year less forecasted accumulated depreciation on
(N) QIP plant for the QIP year. The average forecasted cost of QIP plant, net of depreciation,
(N) shall be computed by using an average of thirteen (13) end-of-month balances of QIP plant
(N) and accumulated depreciation for the annual prospective QIP year which will be the twelve
(N) month incremental period(s) following the Forecast Test Period utilized in establishing Base
(N) Rates of the Company in its prior Base Rate Case proceeding.

(N) **PTROR** = **Rate of Return on Rate Base** as authorized by the Commission in the
(N) Company's prior Base Rate case petition grossed-up for Income Taxes.

(N) **NetDep** = **Net depreciation** expense related to the average investment in QIP plant for the
(N) QIP year. Depreciation expense shall be calculated by multiplying the average forecasted cost
(N) of the investment in QIP plant by plant account, net of retirements, by the approved
(N) depreciation rates for the respective accounts in which the specific items included in the
(N) average QIP investment are recorded. The average forecasted cost of the investment in QIP by
(N) plant account, net of retirements, shall be computed by using an average of thirteen (13) end-
(N) of-month balances of QIP by plant account and retirements for the annual prospective QIP year
(N) which will be the twelve month incremental period(s) following the Forecast Test Period
(N) utilized in establishing Base Rates of the Company in its prior Base Rate Case proceeding.

(N) **PT** = **Property Taxes** associated with Net QIP Plant. Property taxes shall be based on the
(N) ratio of property taxes to total Utility Plant in Service as authorized by the Commission in the
(N) prior Base Rate case applied to net QIP Plant.

(N) Indicates new rate or requirement

(N) CLASSIFICATION OF SERVICE

(N) QUALIFIED INFRASTRUCTURE PROGRAM
(N) (Continued)

(N) Where:
R = **Reconciliation** component amount calculated for the annual reconciliation of the prior QIP year.

(N) **RT =** **Revenue Taxes** expressed as a decimal. Revenue Taxes reflect sum of PSC Utility Fee and Uncollectible expense.

(N) **PAR** = The projection of total water QIP base rate revenues, as applicable, for the annual prospective period which will be the twelve month incremental period(s) following the Forecast Test Period utilized in establishing Base Rates of the Company in its prior Base Rate Case proceeding. The projected revenue shall not include any other applicable surcharge or add-on taxes, or any other revenues not recorded in a QIP base rate revenues account.

(N)

(N) The QIP shall be subject to an annual reconciliation.

(N) **Annual Reconciliation:**

(N) Within 90 days of the end of each QIP year, if the Company had a QIP in effect for all or part of the immediately preceding QIP year, it shall submit to the Commission an annual reconciliation regarding the results for the previous QIP year. The annual reconciliation shall be verified by an officer of the Company. The annual reconciliation shall include a calculation of the R formula component necessary to adjust revenue collected under the QIP Rider in effect for prior QIP year to an amount equivalent to the actual level of prudently-incurred QIP cost for the prior QIP year. Any over or under recovery will be included in the calculation of the next adjustment to the QIP.

(N) **New Base Rates:**

(N) The QIP charge will be reset at zero upon the establishment of new Base Rates to customer billings that provide for the prospective recovery of the annual costs that theretofore been recovered under the QIP. Thereafter, only the costs of new QIP eligible plant additions that have not previously been reflected in the Company's rate base would be reflected in new annual prospective QIP filings.

(N) Indicates new rate or requirement

Issued Date: January 29, 2016
Effective Date: February 28, 2016

Issued By: ___/s/Nick O. Rowe_________________
Nick O. Rowe, President
2300 Richmond Rd, Lexington, Kentucky 40502

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 3

Description of Filing Requirement:

Comparison of Present and Proposed Tariffs in comparative form on the same sheet side by side.

Response:

Please see attached.

For electronic version, see KAW_APP_EX03_012916.pdf.

Kentucky American Water Company
Case No. 2015-00418
Comparison of Present and Proposed Rates and Service Charges
For the General Rate Increase

Service Classification No. 1 **Meter Rates:**	**Present Rate Per 1,000 Gallons All Consumption**	**Proposed Rate Per 1,000 Gallons All Consumption**	**Present Rate Per 100 Gallons All Consumption**	**Proposed Rate Per 100 Gallons All Consumption**	**Present Rate Per 100 Cubic Feet All Consumption**	**Proposed Rate Per 100 Cubic Feet All Consumption**
Residential	$5.30040	$6.18200	$0.5300	$0.6182	$3.96470	Deleted
Commercial	4.82800	5.38400	0.4828	0.5384	$3.61130	Deleted
Industrial	3.89470	4.75500	0.3895	0.4755	$2.91320	Deleted
Municipal & Other Public Authority	4.24520	4.99000	0.4245	0.4990	$3.17540	Deleted
Sales for Resale	4.20930	4.45100	0.4209	0.4451	$3.14860	Deleted

Service Charges: Size of Meter	**Present Service Charge Per Month**	**Proposed Service Charge Per Month**
5/8"	$12.49	$14.85
3/4"	18.74	22.30
1"	31.23	37.10
1-1/2"	62.45	74.30
2"	99.92	118.80
3"	187.35	222.80
4"	312.25	371.30
6"	624.50	742.50
8"	999.20	1,188.00

Service Classification No. 3 Size of Service	**Present Rate Per Month**	**Proposed Rate Per Month**	**Present Rate Per Annum**	**Proposed Rate Per Annum**
2" Diameter	$ 8.92	$ 9.37	$ 107.04	$ 112.44
4" Diameter	$ 35.90	$ 37.70	$ 430.80	$ 452.40
6" Diameter	$ 80.74	$ 84.78	$ 968.88	$ 1,017.36
8" Diameter	$ 143.54	$ 150.72	$ 1,722.48	$ 1,808.64
10" Diameter	$ 224.34	$ 235.56	$ 2,692.08	$ 2,826.72

Kentucky American Water Company
Case No. 2015-00418
Comparison of Present and Proposed Rates and Service Charges
For the General Rate Increase

12" Diameter	$	323.50	$	339.68	$	3,882.00	$	4,076.16
14" Diameter	$	439.89	$	461.88	$	5,278.68	$	5,542.56
16" Diameter	$	574.42	$	603.14	$	6,893.04	$	7,237.68

Service Classification No. 4	**Present Rate Per Month**	**Proposed Rate Per Month**	**Present Rate Per Annum**	**Proposed Rate Per Annum**
Rates For Public Fire Service				
For Each Public Hydrant	$41.60	$48.00	$499.20	$576.00
Rates For Private Fire Service				
For Each Private Hydrant	$79.77	$79.77	$957.24	$957.24

Tapping (Connection Fees)	**Present Rate Per Month**	**Proposed Rate Per Month**
5/8"	$1,078.00	$1,280.00
1"	1,576.00	2,201.00
2"	3,563.00	4,238.00
Service larger than 2"	Actual Cost	Actual Cost

	Present	**Proposed**
Reconnection Charge	$56.00	$56.00
Activation Fee	$28.00	$28.00

P.S.C.Ky.No.6

Cover Sheet and Original Sheets:

Nos. 5, 7, 8, 14 through 19, 20.1, 21, 24.1, 26, 29 through 49, 58, 58.6, 59, 63, 64, and Appendix A;

First Revised Sheet Nos. 2, 4, 6, 9, 10, 11, 12, 13, 24, 25, 28, 51, 53.1, 54, 58.4, 60, 61, 62, 65;

Second Revised Sheet Nos. 2, 22, 23, 50.3, 57, 58.1, 58.2, 58.3, 58.5;

Third Revised Sheet No. 27, 50.1, 50.2, 55, 56;

Fourth Revised Sheet Nos. 3.1;

Fifth Revised Sheet No. 20, 52.1;

Seventh Revised Sheet Nos. 28.1, 28.2;

Fourteenth Revised Sheet Nos. 3, 55.1;

Twenty-Seventh Revised Sheet No. 53;

Thirtieth Revised Sheet No. 52;

Thirty-Second Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD, LEXINGTON, KENTUCKY
http://www.amwater.com/kyaw
FOR SERVICE IN KENTUCKY COUNTIES OF
BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,
JESSAMINE, OWEN, SCOTT AND WOODFORD
FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED: **July 14, 2015**
EFFECTIVE: **August 13, 2015**

ISSUED BY: **/s/Cheryl D. Norton**
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
8/13/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

P.S.C.Ky.No.6

Cover Sheet and Original Sheets:

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First Revised Sheet Nos. 2, 4, 6, 9, 10, 11, 12, 13, 24, 25, 28, 51, 53.1, 54, 58.4, 61, 62, 65;

Second Revised Sheet Nos. 2, 22, 23, 50.3, 57, 58.3, 58.5, 60;

Third Revised Sheet No. 27, 50.1, 50.2, 56, 58.1, 58.2;

Fourth Revised Sheet No. 55;

Fifth Revised Sheet Nos. 3.1, 20;

Sixth Revised Sheet No. 52.1;

Eighth Revised Sheet Nos. 28.1, 28.2;

Fourteenth Revised Sheet Nos. 3, 55.1;

Twenty-Eighth Revised Sheet No. 53;

Thirty-First Revised Sheet No. 52;

Thirty-Fourth Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD, LEXINGTON, KENTUCKY
http://www.amwater.com/kyaw
FOR SERVICE IN KENTUCKY COUNTIES OF
BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,
JESSAMINE, OWEN, SCOTT AND WOODFORD
FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED: **January 29, 2016**
EFFECTIVE: **February 28, 2016**

ISSUED BY: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Fourth Revised Sheet No. 3.1
Canceling Third Revised Sheet No. 3.1

Index (Cont'd.)

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(D) Indicates discontinued tariff
(N) Indicates new text/tariff
(T) Indicates change in text

ISSUED: November 14, 2013 **EFF** , 2013

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Fifth Revised Sheet No. 3.1
Canceling Fourth Revised Sheet No. 3.1

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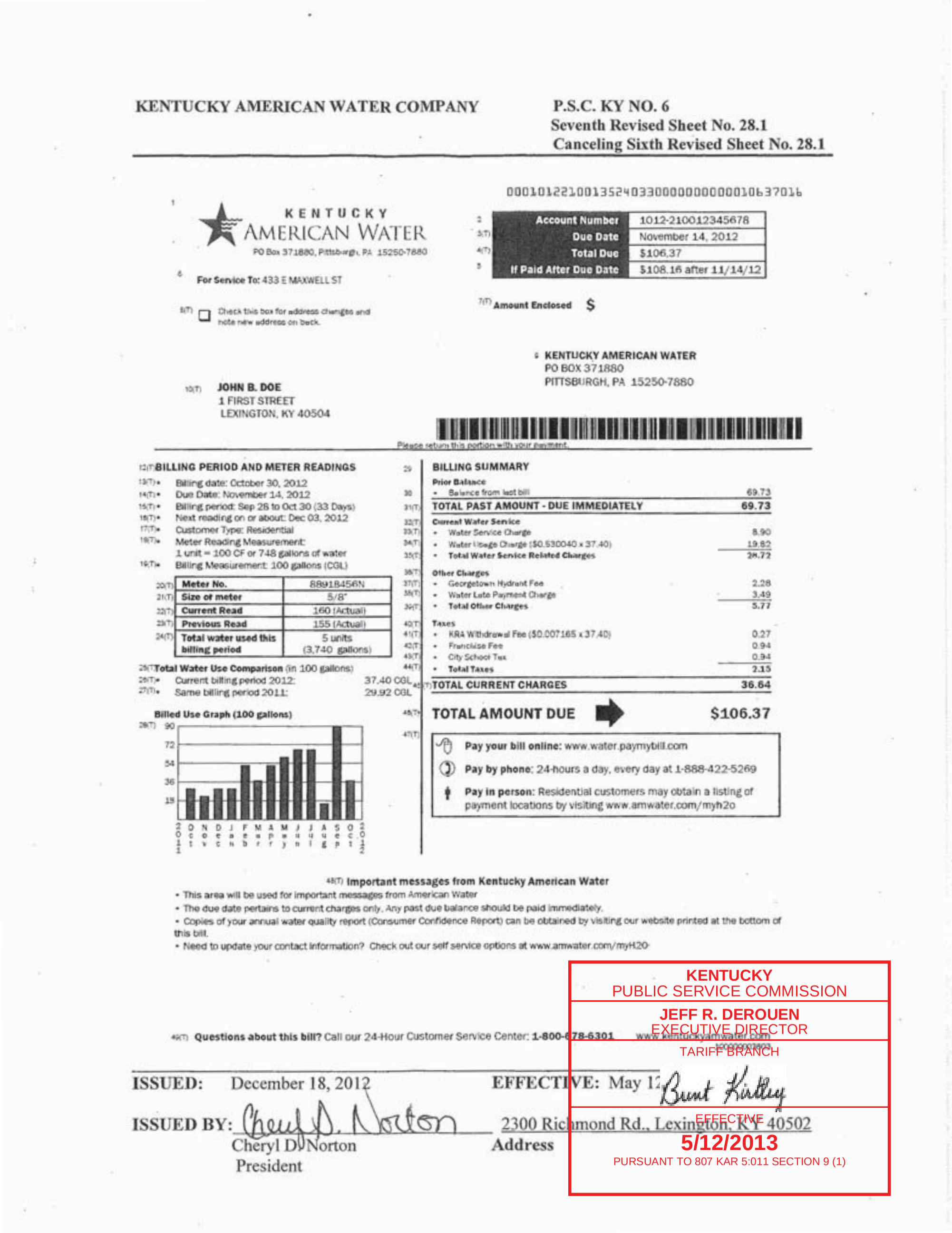
(D) Indicates deletion
(N) Indicates new rate or requirement
(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502



KENTUCKY AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Seventh Revised Sheet No. 28.1
Canceling Sixth Revised Sheet No. 28.1

1 KENTUCKY AMERICAN WATER
PO Box 371880, Pittsburgh, PA 15250-7880

000101221001352403300000000000010637016

2 Account Number	1012-210012345678
3(T) Due Date	November 14, 2012
4(T) Total Due	$106.37
5 If Paid After Due Date	$108.16 after 11/14/12

6 For Service To: 433 E MAXWELL ST

8(T) ☐ Check this box for address changes and note new address on back.

7(T) Amount Enclosed $

9 KENTUCKY AMERICAN WATER
PO BOX 371880
PITTSBURGH, PA 15250-7880

10(T) JOHN B. DOE
1 FIRST STREET
LEXINGTON, KY 40504

Please return this portion with your payment.

12(T) **BILLING PERIOD AND METER READINGS**

- 13(T) Billing date: October 30, 2012
- 14(T) Due Date: November 14, 2012
- 15(T) Billing period: Sep 28 to Oct 30 (33 Days)
- 16(T) Next reading on or about: Dec 03, 2012
- 17(T) Customer Type: Residential
- 18(T) Meter Reading Measurement: 1 unit = 100 CF or 748 gallons of water
- 19(T) Billing Measurement: 100 gallons (CGL)

20(T) **Meter No.**	88918456N
21(T) **Size of meter**	5/8"
22(T) **Current Read**	160 (Actual)
23(T) **Previous Read**	155 (Actual)
24(T) **Total water used this billing period**	5 units (3,740 gallons)

25(T) **Total Water Use Comparison** (in 100 gallons)
- 26(T) Current billing period 2012: 37.40 CGL
- 27(T) Same billing period 2011: 29.92 CGL

Billed Use Graph (100 gallons)

28(T)

29 **BILLING SUMMARY**

	Prior Balance	
30	• Balance from last bill	69.73
31(T)	**TOTAL PAST AMOUNT - DUE IMMEDIATELY**	**69.73**
32(T)	**Current Water Service**	
33(T)	• Water Service Charge	8.90
34(T)	• Water Usage Charge ($0.530040 x 37.40)	19.82
35(T)	• **Total Water Service Related Charges**	**28.72**
36(T)	**Other Charges**	
37(T)	• Georgetown Hydrant Fee	2.28
38(T)	• Water Late Payment Charge	3.49
39(T)	• **Total Other Charges**	**5.77**
40(T)	**Taxes**	
41(T)	• KRA Withdrawal Fee ($0.007165 x 37.40)	0.27
42(T)	• Franchise Fee	0.94
43(T)	• City School Tax	0.94
44(T)	• **Total Taxes**	**2.15**
45(T)	**TOTAL CURRENT CHARGES**	**36.64**
46(T)	**TOTAL AMOUNT DUE**	**$106.37**

47(T)
- **Pay your bill online:** www.water.paymybill.com
- **Pay by phone:** 24-hours a day, every day at 1-888-422-5269
- **Pay in person:** Residential customers may obtain a listing of payment locations by visiting www.amwater.com/myh2o

48(T) **Important messages from Kentucky American Water**
- This area will be used for important messages from American Water
- The due date pertains to current charges only. Any past due balance should be paid immediately.
- Copies of your annual water quality report (Consumer Confidence Report) can be obtained by visiting our website printed at the bottom of this bill.
- Need to update your contact information? Check out our self service options at www.amwater.com/myH20

49(T) **Questions about this bill?** Call our 24-Hour Customer Service Center: **1-800-678-6301** www.kentuckyamwater.com
100000003803

ISSUED: December 18, 2012 **EFFECTIVE:** May 12

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton
President

2300 Richmond Rd., Lexington, KY 40502
Address

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
5/12/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Eighth Revised Sheet No. 28.1
Canceling Seventh Revised Sheet No. 28.1

1 KENTUCKY AMERICAN WATER
PO Box 371880, Pittsburgh, PA 15250-7880

000101221001352403300000000000010637016

2 Account Number	1012-210012345678
3 Due Date	November 14, 2016
4 Total Due	$106.37
5 If Paid After Due Date	$108.16 after 11/14/16

6 For Service To: 433 E MAXWELL ST

8 ☐ Check this box for address changes and note new address on back.

7 Amount Enclosed $

9 KENTUCKY AMERICAN WATER
PO BOX 371880
PITTSBURGH, PA 15250-7880

10 JOHN B. DOE
1 FIRST STREET
LEXINGTON, KY 40504

11 Please return this portion with your payment.

12 BILLING PERIOD AND METER READINGS

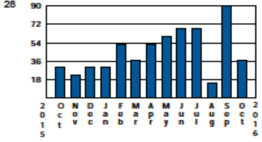
- 13 Billing date: October 30, 2016
- 14 Due Date: November 14, 2016
- 15 Billing period: Sep 28 to Oct 30 (33 Days)
- 16 Next reading on or about: Dec 03, 2016
- 17 Customer Type: Residential
- 18 Meter Reading Measurement: 1 unit = 100 CF or 748 gallons of water
- 19 Billing Measurement: 100 gallons (CGL)

20 Meter No.	88918456N
21 Size of meter	5/8"
22 Current Read	160 (Actual)
23 Previous Read	155 (Actual)
24 Total water used this billing period	5 units (3,740 gallons)

25 Total Water Use Comparison (in 100 gallons)
- 26 Current billing period 2016: 37.40 CGL
- 27 Same billing period 2015: 29.92 CGL

Billed Use Graph (100 gallons)

28



29 BILLING SUMMARY

	Prior Balance	
30	• Balance from last bill	69.73
31	TOTAL PAST AMOUNT - DUE IMMEDIATELY	69.73
32	Current Water Service	
33	• Water Service Charge	14.85
34(I)	• Water Usage Charge ($0.6182 x 37.40)	23.12
35	• Total Water Service Related Charges	37.97
36	Other Charges	
37	• Georgetown Hydrant Fee	2.28
38	• Water Late Payment Charge	3.49
39	• Total Other Charges	5.77
40	Taxes	
41(T)	• KRA Withdrawal Fee ($0.0197 x 37.40)	0.74
42(T)	• Franchise Tax	1.16
43(T)	• School District Tax	1.16
44	• Total Taxes	3.06
45	TOTAL CURRENT CHARGES	46.80
46(T)	TOTAL AMOUNT DUE	$116.53

47
- Pay your bill online: www.water.paymybill.com
- Pay by phone: 24-hours a day, every day at 1-888-422-5269
- Pay in person: Residential customers may obtain a listing of payment locations by visiting www.amwater.com/myh2o

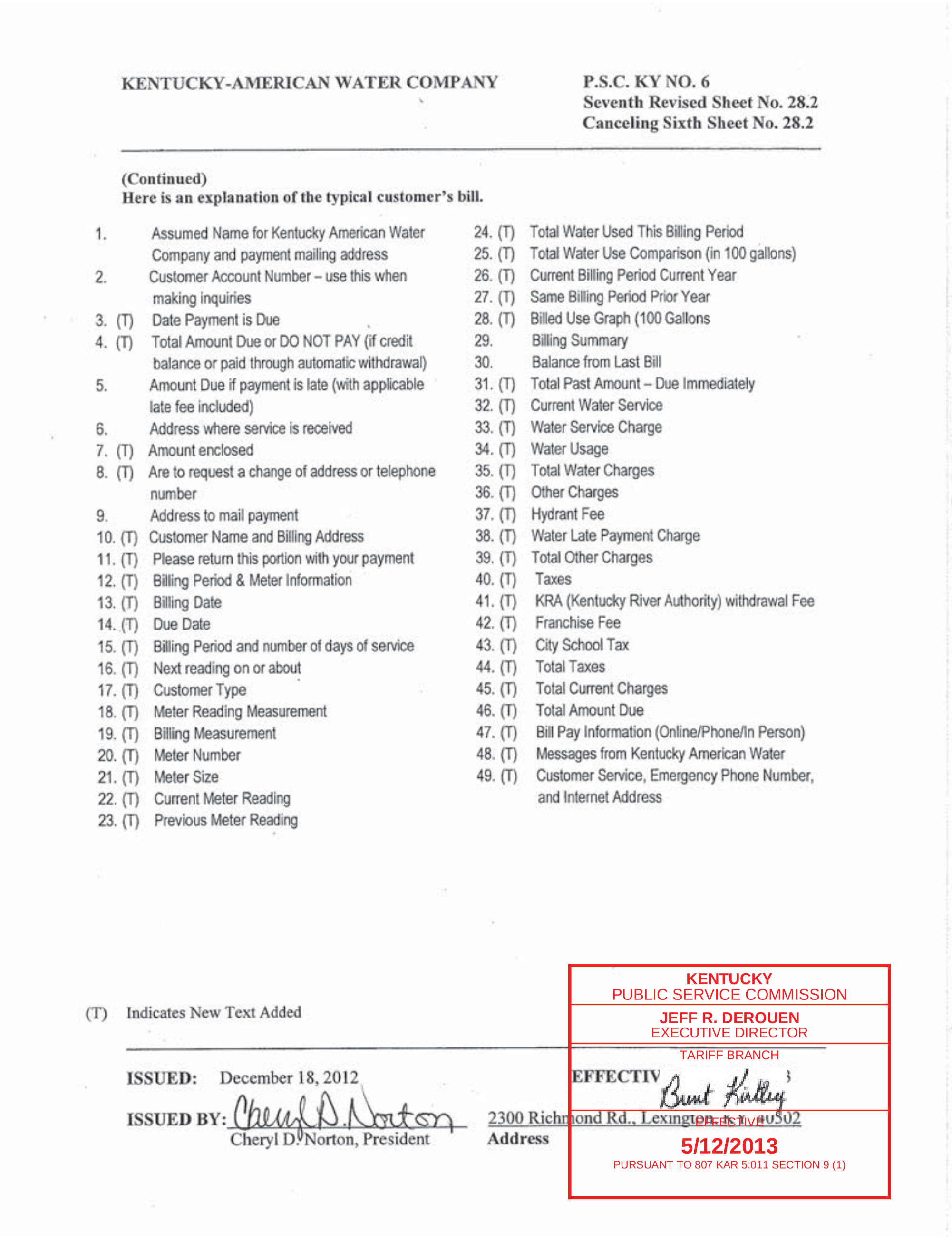
48 Important messages from Kentucky American Water
- This area will be used for important messages from American Water
- The due date pertains to current charges only. Any past due balance should be paid immediately.
- Copies of your annual water quality report (Consumer Confidence Report) can be obtained by visiting our website printed at the bottom of this bill.
- Need to update your contact information? Check out our self service options at www.amwater.com/myH20

49 Questions about this bill? Call our 24-Hour Customer Service Center: 1-800-678-6301 www.kentuckyamwater.com
100000003803

(I) Indicates Increase
(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Rd, Lexington, KY 40502



KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Seventh Revised Sheet No. 28.2
Canceling Sixth Sheet No. 28.2

(Continued)
Here is an explanation of the typical customer's bill.

1. Assumed Name for Kentucky American Water Company and payment mailing address
2. Customer Account Number – use this when making inquiries
3. (T) Date Payment is Due
4. (T) Total Amount Due or DO NOT PAY (if credit balance or paid through automatic withdrawal)
5. Amount Due if payment is late (with applicable late fee included)
6. Address where service is received
7. (T) Amount enclosed
8. (T) Are to request a change of address or telephone number
9. Address to mail payment
10. (T) Customer Name and Billing Address
11. (T) Please return this portion with your payment
12. (T) Billing Period & Meter Information
13. (T) Billing Date
14. (T) Due Date
15. (T) Billing Period and number of days of service
16. (T) Next reading on or about
17. (T) Customer Type
18. (T) Meter Reading Measurement
19. (T) Billing Measurement
20. (T) Meter Number
21. (T) Meter Size
22. (T) Current Meter Reading
23. (T) Previous Meter Reading
24. (T) Total Water Used This Billing Period
25. (T) Total Water Use Comparison (in 100 gallons)
26. (T) Current Billing Period Current Year
27. (T) Same Billing Period Prior Year
28. (T) Billed Use Graph (100 Gallons
29. Billing Summary
30. Balance from Last Bill
31. (T) Total Past Amount – Due Immediately
32. (T) Current Water Service
33. (T) Water Service Charge
34. (T) Water Usage
35. (T) Total Water Charges
36. (T) Other Charges
37. (T) Hydrant Fee
38. (T) Water Late Payment Charge
39. (T) Total Other Charges
40. (T) Taxes
41. (T) KRA (Kentucky River Authority) withdrawal Fee
42. (T) Franchise Fee
43. (T) City School Tax
44. (T) Total Taxes
45. (T) Total Current Charges
46. (T) Total Amount Due
47. (T) Bill Pay Information (Online/Phone/In Person)
48. (T) Messages from Kentucky American Water
49. (T) Customer Service, Emergency Phone Number, and Internet Address

(T) Indicates New Text Added

ISSUED: December 18, 2012
EFFECTIV

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

2300 Richmond Rd., Lexington, KY 40502
Address

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
5/12/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Eighth Revised Sheet No. 28.2
Canceling Seventh Sheet No. 28.2

(Continued)
Here is an explanation of the typical customer's bill.

1. Assumed Name for Kentucky American Water Company and payment mailing address
2. Customer Account Number – use this when making inquiries
3. Date Payment is Due
4. Total Amount Due or DO NOT PAY (if credit balance or paid through automatic withdrawal)
5. Amount Due if payment is late (with applicable late fee included)
6. Address where service is received
7. Amount enclosed
8. Area to request a change of address or telephone number
9. Address to mail payment
10. Customer Name and Billing Address
11. Please return this portion with your payment
12. Billing Period & Meter Information
13. Billing Date
14. Due Date
15. Billing Period and number of days of service
16. Next reading on or about
17. Customer Type
18. Meter Reading Measurement
19. Billing Measurement
20. Meter Number
21. Meter Size
22. Current Meter Reading
23. Previous Meter Reading
24. Total Water Used This Billing Period
25. Total Water Use Comparison (in 100 gallons)
26. Current Billing Period Current Year
27. Same Billing Period Prior Year
28. Billed Use Graph (100 Gallons)
29. Billing Summary
30. Balance from Last Bill
31. Total Past Amount – Due Immediately
32. Current Water Service
33. Water Service Charge
34. Water Usage
35. (T) Total Water Service Related Charges
36. Other Charges
37. (T) Hydrant Fee (if applicable by local ordinance)
38. Water Late Payment Charge
39. Total Other Charges
40. Taxes
41. KRA (Kentucky River Authority) withdrawal Fee
42. (T) FranchiseTax (if applicable – rate% x Total Water Service Related Charges)
43. (T) School District Tax (if applicable – rate % x Total Water Service Related Charges)
44. Total Taxes
45. Total Current Charges
46. Total Amount Due
47. Bill Pay Information (Online/Phone/In Person)
48. Messages from Kentucky American Water
49. Customer Service, Emergency Phone Number, and Internet Address

(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/ Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Thirty-Third Revised Sheet No. 50
Canceling Thirty-Second Revised Sheet No. 50

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates
The following shall be the rates for consumption, in addition to the service charges provided for herein;

Customer Category	Rate Per 1,000 Gallons All consumption	Rate Per 100 Gallons All Consumption	Rate Per 100 Cubic Feet All Consumption
Residential	$5.30040	$0.5300	$3.9647
Commercial	4.82800	0.4828	3.6113
Industrial	3.89470	0.3895	2.9132
Municipal & Other Public Authority	4.24520	0.4245	3.1754
Sales for Resale	4.20930	0.4209	3.1486

Service Charges
All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

	Size of Meter	Service Charge Per Month
(I)	5/8”	$12.49
(I)	3 /4”	18.74
(I)	1”	31.23
(I)	1-1 /2”	62.45
(I)	2”	99.92
(I)	3”	187.35
(I)	4”	312.25
(I)	6”	624.50
(I)	8”	999.20

(I) Indicates Increase

ISSUED: December 13, 2013
EFFECTIVE: December 24, 2013

ISSUED BY: /s/ Cheryl D. Norton
Cheryl D. Norton, President
2300 Richmond [illegible] KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
~~JEFF R. DEROUEN~~
EXECUTIVE DIRECTOR
TARIFF BRANCH
Bunt Kirtley
EFFECTIVE
12/24/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Thirty-Fourth Revised Sheet No. 50
Canceling Thirty-Third Revised Sheet No. 50

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates
The following shall be the rates for consumption, in addition to the service charges provided for herein;

Customer Category	Rate Per 1,000 Gallons All consumption		Rate Per 100 Gallons All Consumption		Rate Per 100 Cubic Feet All Consumption	(D) (D) (D)
Residential	$6.1820	(I)	$0.6182	(I)	$3.9647	(D)
Commercial	5.3840	(I)	0.5384	(I)	3.6113	(D)
Industrial	4.7550	(I)	0.4755	(I)	2.9132	(D)
Municipal & Other Public Authority	4.9900	(I)	0.4990	(I)	3.1754	(D)
Sales for Resale	4.4510	(I)	0.4451	(I)	3.1486	(D)

Service Charges
All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

	Size of Meter	Service Charge Per Month
(I)	5/8”	$14.85
(I)	3 /4”	22.30
(I)	1”	37.10
(I)	1-1 /2”	74.30
(I)	2”	118.80
(I)	3”	222.80
(I)	4”	371.30
(I)	6”	742.50
(I)	8”	1,188.00

(I) Indicates Increase
(D) Indicates Deletion (removal of a rate per 100 Cubic Feet)

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/ Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky. No. 6
Thirtieth Revised Sheet No. 52
Canceling Twenty-Ninth Sheet No. 52

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

Size of Service	Rate Per Month	Rate Per Annum
2" Diameter	$ 8.92	$ 107.04
4" Diameter	35.90	430.80
6" Diameter	80.74	968.88
8" Diameter	143.54	1,722.48
10" Diameter	224.34	2,692.08
12" Diameter	323.50	3,882.00
14" Diameter	439.89	5,278.68
16" Diameter	574.42	6,893.04

Special Provisions
No charge shall be made for water used in extinguishing accidental fires or for Underwriters' tests, and water shall not be drawn from a private fire service connection for any other purpose.

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed in Service Classification No. 1 shall also be charged.

(T) The charges under this provision are in addition to any general water service charges.

(T) signifies text change

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
EFFECTIVE
8/13/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

ISSUED: **July 14, 2015**
EFFECTIVE: **August 13, 2015**

ISSUED BY: **/s/Cheryl D. Norton**
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky. No. 6
Thirty-First Revised Sheet No. 52
Canceling Thirtieth Sheet No. 52

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

	Size of Service	Rate Per Month	Rate Per Annum
(I)	2" Diameter	$ 9.37	$ 112.44
(I)	4" Diameter	37.70	452.40
(I)	6" Diameter	84.78	1,017.36
(I)	8" Diameter	150.72	1,808.64
(I)	10" Diameter	235.56	2,826.72
(I)	12" Diameter	339.68	4,076.16
(I)	14" Diameter	461.88	5,542.56
(I)	16" Diameter	603.14	7,237.68

Special Provisions
No charge shall be made for water used in extinguishing accidental fires or for Underwriters' tests, and water shall not be drawn from a private fire service connection for any other purpose.

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed in Service Classification No. 1 shall also be charged.

The charges under this provision are in addition to any general water service charges.

(I) Indicates increase

ISSUED: **January 29, 2016**
EFFECTIVE: **February 28, 2016**

ISSUED BY: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Fifth Revised Sheet No. 52.1
Canceling Fourth Revised Sheet 52.1

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees

Size of Meter Connected

(I)	5/8-Inch	$1,078.00
(I)	1-Inch	1,576.00
(I)	2-Inch	3,563.00
	Service larger than 2"	Actual Cost

For services greater than 2", a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

ISSUED: November 14, 2013 **EFFECTIVE:** July 27, 2013

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Sixth Revised Sheet No. 52.1
Canceling Fifth Revised Sheet 52.1

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees

Size of Meter Connected

(I)	5/8-Inch	$1,280.00
(I)	1-Inch	2,201.00
(I)	2-Inch	4,238.00
	Service larger than 2"	Actual Cost

For services greater than 2", a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

ISSUED: November 14, 2013
EFFECTIVE: July 27, 2013

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Seventh Revised Sheet No. 53
Canceling Twenty-Sixth Revised Sheet No. 53

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates for Public Fire Service

	Rate Per Month	Rate Per Annum
For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	$41.60	$499.20

Rates for Private Service

	Rate Per Month	Rate Per Annum
For each private fire hydrant contracted for by Industries or Private Institutions.	$79.77	$957.24

Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition, to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed In Service Classification No. 1 shall also be charged.
(T) The charges under this provision are in addition to any general water service charges.

Special Provisions
A few hydrants are connected to mains by a "special connection." A "special connection" exists when a customer and the Company entered into a service contract in which the customer agreed to maintain an unmetered water line from a Company main to the customer's service line. If the Company has reason to believe water from a special connection is being used for purposes other than fire protection, including that the connection or line is leaking, the Company may install a meter and charge for usage under this tariff. The Company may require the customer to pay for

(T) signifies text change

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
8/13/2015
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

ISSUED: July 14, 2015
EFFECTIVE: August 13, 2015

ISSUED BY: /s/Cheryl D. Norton
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Eighth Revised Sheet No. 53
Canceling Twenty-Seventh Revised Sheet No. 53

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable
Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service
Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates for Public Fire Service

		Rate Per Month	Rate Per Annum
(I)	For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	$48.00	$576.00

Rates for Private Service

	Rate Per Month	Rate Per Annum
For each private fire hydrant contracted for by Industries or Private Institutions.	$79.77	$957.24

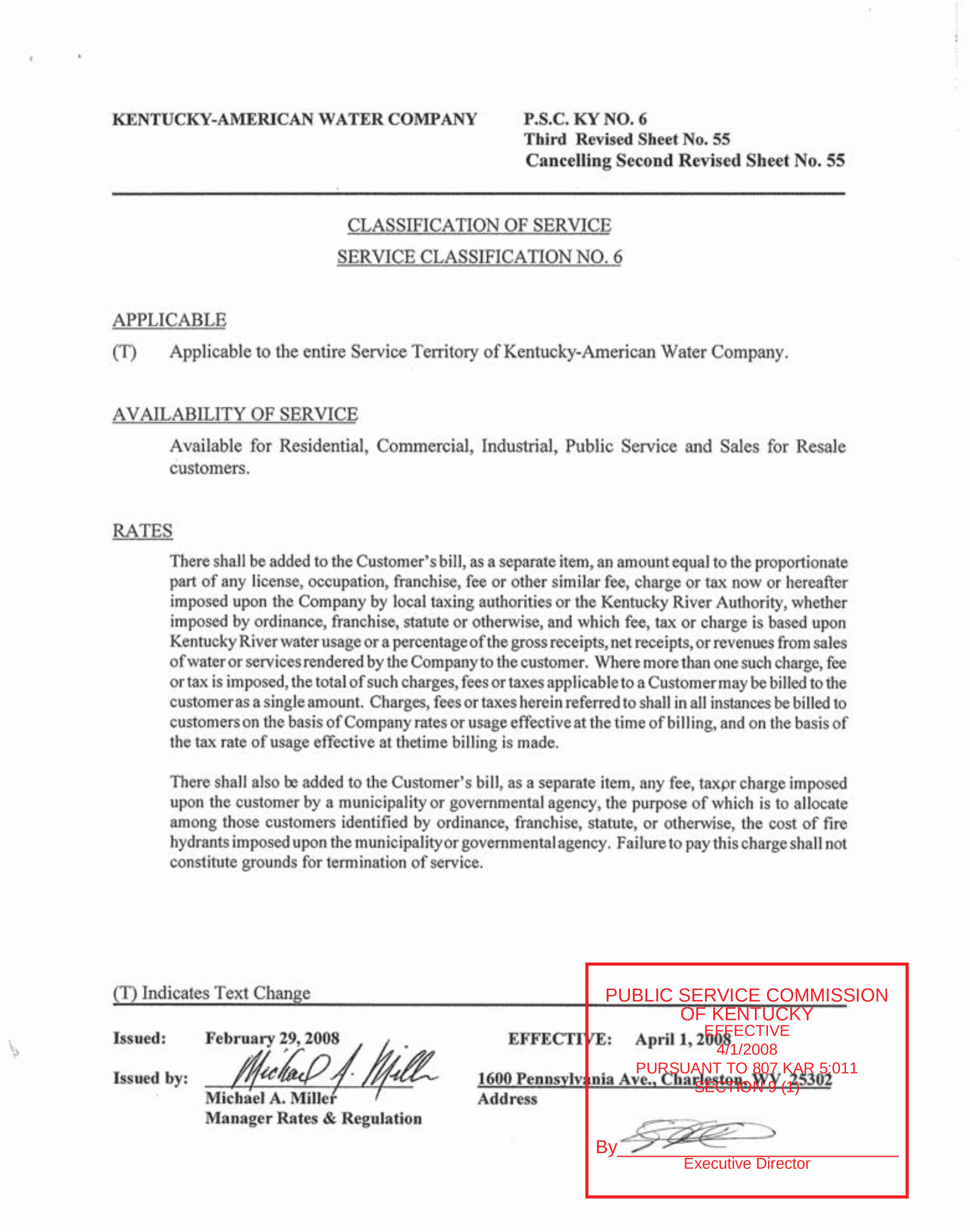
Fire service connections are furnished for the sole purpose of supplying water for the extinguishment of fires. If the Company has reason to believe water is being used for other purposes, including that the connection or line is leaking, the Company may install a meter to monitor usage, and, in addition, to the rates for fire protection listed above, all usage shall be billed at the Commercial rate in Service Classification No. 1. The applicable Service Charge listed In Service Classification No. 1 shall also be charged.
The charges under this provision are in addition to any general water service charges.

Special Provisions
A few hydrants are connected to mains by a "special connection." A "special connection" exists when a customer and the Company entered into a service contract in which the customer agreed to maintain an unmetered water line from a Company main to the customer's service line. If the Company has reason to believe water from a special connection is being used for purposes other than fire protection, including that the connection or line is leaking, the Company may install a meter and charge for usage under this tariff. The Company may require the customer to pay for

(I) Indicates increase

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502



KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Third Revised Sheet No. 55
Cancelling Second Revised Sheet No. 55

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 6

APPLICABLE

(T) Applicable to the entire Service Territory of Kentucky-American Water Company.

AVAILABILITY OF SERVICE

Available for Residential, Commercial, Industrial, Public Service and Sales for Resale customers.

RATES

There shall be added to the Customer's bill, as a separate item, an amount equal to the proportionate part of any license, occupation, franchise, fee or other similar fee, charge or tax now or hereafter imposed upon the Company by local taxing authorities or the Kentucky River Authority, whether imposed by ordinance, franchise, statute or otherwise, and which fee, tax or charge is based upon Kentucky River water usage or a percentage of the gross receipts, net receipts, or revenues from sales of water or services rendered by the Company to the customer. Where more than one such charge, fee or tax is imposed, the total of such charges, fees or taxes applicable to a Customer may be billed to the customer as a single amount. Charges, fees or taxes herein referred to shall in all instances be billed to customers on the basis of Company rates or usage effective at the time of billing, and on the basis of the tax rate of usage effective at thetime billing is made.

There shall also be added to the Customer's bill, as a separate item, any fee, taxor charge imposed upon the customer by a municipality or governmental agency, the purpose of which is to allocate among those customers identified by ordinance, franchise, statute, or otherwise, the cost of fire hydrants imposed upon the municipality or governmental agency. Failure to pay this charge shall not constitute grounds for termination of service.

(T) Indicates Text Change

Issued: **February 29, 2008**

EFFECTIVE: **April 1, 2008**

Issued by: Michael A. Miller
Michael A. Miller
Manager Rates & Regulation

1600 Pennsylvania Ave., Charleston, WV 25302
Address

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
4/1/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By
Executive Director

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Fourth Revised Sheet No. 55
Cancelling Third Sheet No. 55

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 6
(T) BILLING OF LICENSE, OCCUPATION, FRANCHISE OR OTHER SIMILAR CHARGES OR TAXES INCLUDING SCHOOL TAX

APPLICABLE

Applicable to all customers in the City of Lexington, Fayette County, Kentucky and contiguous territory thereto.

AVAILABILITY OF SERVICE

Available for Residential, Commercial, Industrial, Public Service and Sales for Resale customers.

RATES

There shall be added to the Customer's bill, as a separate item, an amount equal to the proportionate part of any license, occupation, franchise, fee or other similar fee, charge or tax now or hereafter imposed upon the Company by local taxing authorities or the Kentucky River Authority, whether imposed by ordinance, franchise, statute or otherwise, and which fee, tax or charge is based upon Kentucky River water usage or a percentage of the gross receipts, net receipts, or revenues from sales of water or services rendered by the Company to the customer. Where more than one such charge, fee or tax is imposed, the total of such charges, fees or taxes applicable to a Customer may be billed to the customer as a single amount. Charges, fees or taxes herein referred to shall in all instances be billed to customers on the basis of Company rates or usage effective at the time of billing, and on the basis of the tax rate of usage effective at the time billing is made.

(T) (T) (T) There shall be added to the Customer's bill, as a separate item, an amount equal to the proportionate amount of school tax in any county requiring a utility gross receipts license tax for schools under KRS 160.613.

There shall also be added to the Customer's bill, as a separate item, any fee, tax or charge imposed upon the customer by a municipality or governmental agency, the purpose of which is to allocate among those customers identified by ordinance, franchise, statute, or otherwise, the cost of fire hydrants imposed upon the municipality or governmental agency. Failure to pay this charge shall not constitute grounds for termination of service.

(T) Indicates change in text

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

Issued by: /s/Nick O. Rowe
Nick O. Rowe, Vice President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Second Revised Sheet No. 58.1
Canceling First Revised Sheet No. 58.1

CUSTOMER SPECIFIC TARIFF CHARGES

Applicable

Applicable to customers in the Company's Northern Division formerly served by the Tri-Village Water District.

	Service Run	$23 ** (refer below)
	Collection of Delinquent Bill	$23
(I)	Reconnection Charge	$56
	Deposit for New Service	$40
	Returned Check Charge	$10

** This applies anytime the service men come to remove the meter for non-payment of the bill and the customer pays while they are there or tells them that they will come to the office to pay the bill.

(I) Indicates Increase

ISSUED: November 14, 2013

EFFECTIVE: J

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. KY NO. 6
Third Revised Sheet No. 58.1
Canceling Second Revised Sheet No. 58.1

(D) **CUSTOMER SPECIFIC TARIFF CHARGES**

(D) **Applicable**

(D) Applicable to customers in the Company's Northern Division formerly served by the Tri-Village
(D) Water District.

(D)	Service Run	$23 ** (refer below)
(D)	Collection of Delinquent Bill	$23
(D)	Reconnection Charge	$56
(D)	Deposit for New Service	$40
(D)	Returned Check Charge	$10

(D) ** This applies anytime the service men come to remove the meter for non-payment of the bill and the
(D) customer pays while they are there or tells them that they will come to the office to pay the bill.

(D) Indicates deletion

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Second Revised Sheet No. 58.2
Canceling First Revised Sheet No. 58.2

CUSTOMER SPECIFIC TARIFF CHARGES

Applicable

Applicable to customers in the Company's Northern Division formerly served by the Elk Lake Shores Subdivision.

SERVICE RUN

The cost of a service run shall be $40.00. This applies anytime the service men come to remove the meter for non-payment of the bill and the customer pays while they are there or tells them that they will come to the office to pay the bill.

PENALTY CLAUSE

The rates, as listed, are net and all bills will be rendered in the net amount. A penalty of 10% shall be added to the bill if payment is not received by the 15th of the month. A penalty will be assessed only once on any bill for rendered service.

RETURNED CHECK FEE

Customer will be charged $10.00 on any returned checks.

RECONNECTION CHARGE

(I) A Reconnection Charge of $56.00 shall be made by the Company to cover the cost incurred for reconnecting the meter or service when the customer's service has been disconnected at his request, or for any other reason, as set forth in these Regulations.

METER REMOVAL CHARGE

A Meter Removal Charge of $56.00 shall be made when the customer's service has been disconnected at his request, or for any other reason, as set forth in these Regulations.

(I) Indicates Increase

ISSUED: November 14, 2013

ISSUED BY: Cheryl D. Norton
Cheryl D. Norton, President

EFFECTIVE: July 27, 2013
2300 Richmon n, KY 40502

KENTUCKY
PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN
EXECUTIVE DIRECTOR
TARIFF BRANCH
Brent Kirtley
EFFECTIVE
7/27/2013
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Third Revised Sheet No. 58.2
Canceling Second Revised Sheet No. 58.2

(D) **CUSTOMER SPECIFIC TARIFF CHARGES**

(D) **Applicable**

(D) Applicable to customers in the Company's Northern Division formerly served by the Elk Lake Shores
(D) Subdivision.

(D) **SERVICE RUN**

(D) The cost of a service run shall be $40.00. This applies anytime the service men come to remove the
(D) meter for non-payment of the bill and the customer pays while they are there or tells them that they will
(D) come to the office to pay the bill.

(D) **PENALTY CLAUSE**

(D) The rates, as listed, are net and all bills will be rendered in the net amount. A penalty of 10% shall be
(D) added to the bill if payment is not received by the 15th of the month. A penalty will be assessed only
(D) once on any bill for rendered service.

(D) **RETURNED CHECK FEE**

(D) Customer will be charged $10.00 on any returned checks.

(D) **RECONNECTION CHARGE**

(D) A Reconnection Charge of $56.00 shall be made by the Company to cover the cost incurred for
(D) reconnecting the meter or service when the customer's service has been disconnected at his request, or
(D) for any other reason, as set forth in these Regulations.

(D) **METER REMOVAL CHARGE**

(D) A Meter Removal Charge of $56.00 shall be made when the customer's service has been disconnected at
(D) his request, or for any other reason, as set forth in these Regulations.

(D) Indicates Deletion

ISSUED: January 29, 2016
EFFECTIVE: February 28, 2016

ISSUED BY: /s/Nick O. Rowe
Nick O. Rowe, President
2300 Richmond Road, Lexington, KY 40502

Not currently in tariff

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky. No. 6
First Revised Sheet No. 60
Canceling Original Sheet No. 60

(N) CLASSIFICATION OF SERVICE

(N) QUALIFIED INFRASTRUCTURE PROGRAM

(N) **Applicability:**

(N) In addition to the other charges provided for in this Tariff under Service Classifications Residential,
(N) Commercial, Industrial, Other Public Authority, Sales For Resale, and Private Fire, a QIP charge of
(N) ____% will apply.

(N) The above charge will be recomputed annually.

(N) **General Description:**

(N) To recover the fixed costs (pre-tax return and depreciation) of certain non-revenue producing distribution
(N) system improvement projects completed and placed in service on an annual prospective basis between
(N) base rate cases and recorded in the individual utility plant accounts, as noted below. The initial annual
(N) prospective QIP year will be the first full twelve month period following the Forecast Test Period utilized
(N) by the Commission in establishing Base Rates of the Company in its prior Base Rate Case proceeding.

(N) **QIP Eligible Utility Plant:**

(N) Distribution Infrastructure – replacement of distribution and transmission systems mains and valves
(N) installed as replacements for existing facilities; hydrants, services, meters and meter installations, and
(N) pumping equipment – installed as in-kind replacements; unreimbursed funds related to capital projects to
(N) relocate facilities required by governmental highway projects.

(N) **Determination of the Annual QIP Charge Percentage:**

(N) The QIP percentage shall be expressed as a percentage carried to two (2) decimal places. The QIP
(N) percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise
(N) applicable rates and charges. The QIP shall not be applied to any other surcharge or add-on taxes, or to
(N) any other revenues not recorded in a QIP base rate revenues account.

(N) The QIP percentage shall be calculated on annual prospective basis.

(N) Indicates new rate or requirement

Issued Date: January 29, 2016
Effective Date: February 28, 2016

Issued By: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Rd, Lexington, Kentucky 40502

Not currently in tariff

KENTUCKY-AMERICAN WATER COMPANY **P.S.C. Ky. No. 6**
Original Sheet No. 60.1

(N) **CLASSIFICATION OF SERVICE**

(N) **QUALIFIED INFRASTRUCTURE PROGRAM**
(N) **(Continued)**

(N) **QIP percentage formula:**

(N) QIP % = [{((NetQIP x PTROR) + NetDep + PT + R} / 1 – RT]
PAR

(N) Where:

(N) **QIP** % = **QIP percentage**

(N) **NetQIP** = The average forecasted cost of the investment in QIP plant (QIP additions net
(N) of associated QIP retirements) for the QIP year less forecasted accumulated depreciation on
(N) QIP plant for the QIP year. The average forecasted cost of QIP plant, net of depreciation,
(N) shall be computed by using an average of thirteen (13) end-of-month balances of QIP plant
(N) and accumulated depreciation for the annual prospective QIP year which will be the twelve
(N) month incremental period(s) following the Forecast Test Period utilized in establishing Base
(N) Rates of the Company in its prior Base Rate Case proceeding.

(N) **PTROR** = **Rate of Return on Rate Base** as authorized by the Commission in the
(N) Company's prior Base Rate case petition grossed-up for Income Taxes.

(N) **NetDep** = **Net depreciation** expense related to the average investment in QIP plant for the
(N) QIP year. Depreciation expense shall be calculated by multiplying the average forecasted cost
(N) of the investment in QIP plant by plant account, net of retirements, by the approved
(N) depreciation rates for the respective accounts in which the specific items included in the
(N) average QIP investment are recorded. The average forecasted cost of the investment in QIP by
(N) plant account, net of retirements, shall be computed by using an average of thirteen (13) end-
(N) of-month balances of QIP by plant account and retirements for the annual prospective QIP year
(N) which will be the twelve month incremental period(s) following the Forecast Test Period
(N) utilized in establishing Base Rates of the Company in its prior Base Rate Case proceeding.

(N) **PT** = **Property Taxes** associated with Net QIP Plant. Property taxes shall be based on the
(N) ratio of property taxes to total Utility Plant in Service as authorized by the Commission in the
(N) prior Base Rate case applied to net QIP Plant.

(N) Indicates new rate or requirement

Issued Date: January 29, 2016
Effective Date: February 28, 2016

Issued By: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Rd, Lexington, Kentucky 40502

Not currently in tariff

KENTUCKY-AMERICAN WATER COMPANY **P.S.C. Ky. No. 6**
Original Sheet No. 60.2

(N) ## CLASSIFICATION OF SERVICE

(N) ## QUALIFIED INFRASTRUCTURE PROGRAM
(N) **(Continued)**

(N) Where:
(N) **R** = **Reconciliation** component amount calculated for the annual reconciliation of the
(N) prior QIP year.

(N) **RT =** **Revenue Taxes** expressed as a decimal. Revenue Taxes reflect sum of
(N) PSC Utility Fee and Uncollectible expense.

(N) **PAR** = The projection of total water QIP base rate revenues, as applicable, for the annual
(N) prospective period which will be the twelve month incremental period(s) following the
(N) Forecast Test Period utilized in establishing Base Rates of the Company in its prior Base
(N) Rate Case proceeding. The projected revenue shall not include any other applicable surcharge
(N) or add-on taxes, or any other revenues not recorded in a QIP base rate revenues account.
(N)

(N) The QIP shall be subject to an annual reconciliation.

(N) **Annual Reconciliation:**

(N) Within 90 days of the end of each QIP year, if the Company had a QIP in effect for all or part
(N) of the immediately preceding QIP year, it shall submit to the Commission an annual
(N) reconciliation regarding the results for the previous QIP year. The annual reconciliation shall
(N) be verified by an officer of the Company. The annual reconciliation shall include a
(N) calculation of the R formula component necessary to adjust revenue collected under the QIP
(N) Rider in effect for prior QIP year to an amount equivalent to the actual level of prudently-
(N) incurred QIP cost for the prior QIP year. Any over or under recovery will be included in the
(N) calculation of the next adjustment to the QIP.

(N) **New Base Rates:**

(N) The QIP charge will be reset at zero upon the establishment of new Base Rates to customer billings that
(N) provide for the prospective recovery of the annual costs that theretofore been recovered under the QIP.
(N) Thereafter, only the costs of new QIP eligible plant additions that have not previously been reflected in
(N) the Company's rate base would be reflected in new annual prospective QIP filings.

(N) Indicates new rate or requirement

Issued Date: January 29, 2016
Effective Date: February 28, 2016

Issued By: **/s/Nick O. Rowe**
Nick O. Rowe, President
2300 Richmond Rd, Lexington, Kentucky 40502

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 4

Description of Filing Requirement:

Certified copy of the Company’s Articles of Incorporation with all Amendments.

Response:

The Company’s Articles of Incorporation have not changed since they were filed as Filing Exhibit 4 in Kentucky American’s 1995 Rate Case: In the matter of: Notice of Adjustment of the rates of Kentucky-American Water Company effective on and after February 29, 1996 (Case No. 95-9554).

For electronic version, see KAW_APP_EX04_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 5

Description of Filing Requirement:

Certificate of Good Standing

Response:

Please see attached Certificate of Existence.

For electronic version, see KAW_APP_EX05_012916.pdf.

Commonwealth of Kentucky
Alison Lundergan Grimes, Secretary of State

Alison Lundergan Grimes
Secretary of State
P. O. Box 718
Frankfort, KY 40602-0718
(502) 564-3490
http://www.sos.ky.gov

Certificate of Existence

Authentication number: 172020
Visit https://app.sos.ky.gov/ftshow/certvalidate.aspx to authenticate this certificate.

I, Alison Lundergan Grimes, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

KENTUCKY-AMERICAN WATER COMPANY

is a corporation duly incorporated and existing under KRS Chapter 14A and KRS Chapter 271B, whose date of incorporation is September 15, 1927 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 12th day of January, 2016, in the 224th year of the Commonwealth.

Alison Lundergan Grimes

Alison Lundergan Grimes
Secretary of State
Commonwealth of Kentucky
172020/0027327

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 6

Description of Filing Requirement:

Certified Copy of a Certificate of Assumed Name

Response:

Please see attached.

For electronic version, see KAW_APP_EX06_012916.pdf.

COMMONWEALTH OF KENTUCKY

Alison Lundergan Grimes
Secretary of State

Certificate

I, Alison Lundergan Grimes, Secretary of State for the Commonwealth of Kentucky, do hereby certify that the foregoing writing has been carefully compared by me with the original thereof, now in my official custody as Secretary of State and remaining on file in my office, and found to be a true and correct copy of

CERTIFICATE OF ASSUMED NAME OF

KENTUCKY AMERICAN WATER ADOPTED BY KENTUCKY-AMERICAN WATER COMPANY FILED SEPTEMBER 12, 2003.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 12th day of January, 2016.

Alison Lundergan Grimes

Alison Lundergan Grimes
Secretary of State
Commonwealth of Kentucky
dwilliams/0027327 - Certificate ID: 172023

COMMONWEALTH OF KENTUCKY
JOHN Y. BROWN III
SECRETARY OF STATE

0027327.04
Pcraine
ADD
John Y. Brown III
Secretary of State
Received and Filed
09/12/2003 11:16:06 AM
Fee Receipt: $20.00

CERTIFICATE OF ASSUMED NAME

This certifies that the assumed name of

KENTUCKY AMERICAN WATER

[Name under which the business will be conducted]

has been adopted by Kentucky-American Water Company

[Real name - KRS 365.015(1)]

which is the "real name" of [YOU MUST CHECK ONE]

☐ a Domestic General Partnership
☐ a Domestic Registered Limited Liability Partnership
☐ a Domestic Limited Partnership
☐ a Domestic Business Trust
☑ a Domestic Corporation
☐ a Domestic Limited Liability Company
☐ a Joint Venture

☐ a Foreign General Partnership
☐ a Foreign Registered Limited Liability Partnership
☐ a Foreign Limited Partnership
☐ a Foreign Business Trust
☐ a Foreign Corporation
☐ a Foreign Limited Liability Company

organized and existing in the state or country of Kentucky, USA, and whose address is

2300 Richmond Road	Lexington	Kentucky	40502
Street address, if any	City	State	Zip Code

The certificate of assumed name is executed by

Roy W Mundy II
Signature

Roy W. Mundy, II, President
Print or type name and title

8-29-03
Date

Signature

Print or type name and title

Date

SSC-226 (7/98)

(See attached sheet for instructions)

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 7

Description of Filing Requirement:

Public Notices

Response:

Please see attached.

For electronic version, see KAW_APP_EX07_012916.pdf.

NOTICE

Kentucky-American Water Company ("Kentucky American Water") expects to file on January 29, 2016 an application with the Kentucky Public Service Commission to increase the water service revenues by approximately 15.2%. The proposed annual revenue increases by customer classification are: Residential - $8,324,451 (17.5%); Commercial - $2,756,667 (13.0%); Industrial - $557,063 (21.9%); Other Public Authority - $1,047,117 (17.7%); Sales for Resale - $111,947 (6.3%); Private Fire Service and Hydrants - $80,739 (3.0%); Public Fire Hydrants - $575,462 (15.4%). The proposed effective date of the rates is for service rendered on and after February 28, 2016. Kentucky American Water has requested the proposed rates be implemented to all customer classifications as shown below:

Proposed Rate Increase (Effective for service rendered on and after February 28, 2016):

Monthly Service Charge by Meter Size (applicable to all customer classifications)	Current Rate	Proposed Rate	$ Change	% Change
5/8"	$12.49	$14.85	$2.36	19% Increase
3/4"	18.74	22.30	3.56	19% Increase
1"	31.23	37.10	5.87	19% Increase
1-1/2"	62.45	74.30	11.85	19% Increase
2"	99.92	118.80	18.88	19% Increase
3"	187.35	222.80	35.45	19% Increase
4"	312.25	371.30	59.05	19% Increase
6"	624.50	742.50	118.00	19% Increase
8"	999.20	1,188.00	188.80	19% Increase

Consumption Charges:	Current Rate		Proposed Rate		$ Change		% Change
	Per 1000 Gallons	Per 100 Gallons	Per 1000 Gallons	Per 100 Gallons	Per 1000 Gallons	Per 100 Gallons	
Residential	$5.30040	$0.5300	$6.1820	$0.6182	$0.88	$0.088	17% Increase
Commercial	4.82800	0.4828	5.3840	0.5384	0.56	0.056	12% Increase
Industrial	3.89470	0.3895	4.7550	0.4755	0.86	0.086	22% Increase
Other Public Authority	4.24520	0.4245	4.9900	0.4990	0.74	0.0745	18% Increase
Sales for Resale	4.20930	0.4209	4.4510	0.4451	0.24	0.024	6% Increase

Fire Protection:

Private Fire Line Size	Current Rate Per Month	Proposed Rate Per Month	$ Change	% Change
2"	$8.92	$9.37	$0.45	5% Increase
4"	35.90	37.70	1.80	5% Increase
6"	80.74	84.78	4.04	5% Increase
8"	143.54	150.72	7.18	5% Increase
10"	224.34	235.56	11.22	5% Increase
12"	323.50	339.68	16.18	5% Increase
14"	439.89	461.88	21.99	5% Increase
16"	574.42	603.14	28.72	5% Increase
Private Fire Hydrant	79.77	79.77	0.00	0% Increase
Public Fire Hydrant	41.60	48.00	6.40	15% Increase

Average Monthly Bills:

	Average Monthly Usage	Current Average Bill	Proposed Average Bill	$ Change	% Change
Residential	4,130 gallons	$34.38	$40.38	$6.00	17% Increase
Commercial	34,593 gallons	$179.51	$201.10	$21.59	12% Increase

	Average Monthly Usage	Current Average Bill	Proposed Average Bill	$ Change	% Change
Industrial	1,981,715 gallons	$7,818.05	$9,541.85	$1,723.80	22% Increase
Other Public Authority	195,885 gallons	$931.49	$1,096.27	$164.78	18% Increase
Sales for Resale	2,402,950 gallons	$10,214.66	$10,814.33	$599.67	6% Increase
Private Fire Hydrant	N/A	$79.77	$79.77	$0.00	0% Increase
Public Fire Hydrant	N/A	$41.60	$48.00	$6.40	15% Increase
Private Fire Line	N/A	$78.66	$82.59	$3.94	5% Increase

Tap Fees:

Meter Size (applicable to all customer classifications)	Current Rate	Proposed Rate	$ Change	% Change
5/8”	$1,078.00	$1,280.00	$202.00	19% Increase
1”	1,576.00	2,201.00	625.00	39% Increase
2”	3,563.00	4,238.00	675.00	19% Increase

Kentucky American Water has also proposed additions to its tariff to include a Qualified Infrastructure Program surcharge that would be applied to Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire Service classifications for infrastructure replacement investments. This surcharge would be calculated annually based on actual replacement costs, and applied to each customer’s monthly bill. The surcharge would then be updated annually until the next rate case, at which time the investment costs would be incorporated into rates and the surcharge reset at zero.

Kentucky American Water has also proposed revisions to eliminate portions of its tariff that were charges and terms for former Tri-Village Water District and Elk Lake Shores Subdivision customers. These charges and terms have not been utilized in recent years because all customers are subject to the charges and terms applicable to all water customers as set forth in the tariff.

This application may be examined at the offices of Kentucky American Water located at 2300 Richmond Road in Lexington, Kentucky.

This application may also be examined at the offices of the Public Service Commission located at 211 Sower Boulevard in Frankfort, Kentucky, Monday – Friday from 8:00 am – 4:30 pm or on the Commission’s website at http://psc.ky.gov.

Comments regarding this application may be submitted by mail to the Public Service Commission, Post Office Box 615, Frankfort KY 40602; or through its website at http://psc.ky.gov.

The rates contained in this notice are the rates proposed by Kentucky American Water but the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

Any person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, which establishes the grounds for the request including the status and interest of the party.

If the Public Service Commission does not receive a written request for intervention within thirty (30) days of the providing of this notice, the Public Service Commission may take final action on the application.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 8

Description of Filing Requirement:

PSC Notice

Response:

Please see attached.

For electronic version, see KAW_APP_EX08_012916.pdf.

RECEIVED

DEC 15 2015

PUBLIC SERVICE
COMMISSION

STOLL
KEENON
OGDEN
PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801
Main: (859) 231-3000
Fax: (859) 253-1093

Lindsey W. Ingram III
Direct Dial: (859) 231-3982
Direct Fax: (859) 246-3672
L.Ingram@skofirm.com

December 15, 2015

HAND DELIVERED

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Case No. 2015-00418

Re: Adjustment of Water Rates of Kentucky American Water

Dear Mr. Derouen:

In conformity with 807 KAR 5:001, Section 16(2), this letter is to provide notice to the Public Service Commission of the Commonwealth of Kentucky of the intention of Kentucky American Water to file an application for an increase in its water rates no earlier than 30 days from the date of this letter. The rate application will be supported by a fully forecasted test period.

Contemporaneously with this notice, we have submitted a Notice of Election of Use of Electronic Filing Procedures. Please acknowledge receipt of this notice and assign a case number to the application to be filed.

Very truly yours,

Stoll Keenon Ogden PLLC

Lindsey W. Ingram III

cc: David E. Spenard
Gregory T. Dutton (via e-mail)
David J. Barberie (via e-mail)
Iris G. Skidmore (via e-mail)

010311.151238/4470187.1

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COMMISSION

NOTICE OF ELECTION OF USE OF ELECTRONIC FILING PROCEDURES

(Complete All Shaded Areas and Check Applicable Boxes)

In accordance with 807 KAR 5:001, Section 8, Kentucky-American Water Company gives notice of its intent to file an application for Adjustment of rates with the Public Service Commission no later than February 13, 2016 and to use the electronic filing procedures set forth in that regulation.

Kentucky-American Water Company further states that:

		Yes	No
1.	It requests that the Public Service Commission assign a case number to the intended application and advise it of that number as soon as possible;	☑	☐
2.	It or its authorized representatives have registered with the Public Service Commission and are authorized to make electronic filings with the Public Service Commission;	☑	☐
3.	Neither it nor its authorized representatives have registered with the Public Service Commission for authorization to make electronic filings but will do so no later than seven days before the date of its filing of its application for rate adjustment;	☐	☑
4.	It or its authorized agents possess the facilities to receive electronic transmissions;	☑	☐
5.	The following persons are authorized to make filings on its behalf and to receive electronic service of Public Service Commission orders and any pleadings filed by any party or the Public Service Commission Staff:		

Name	Electronic Mail Address
Lindsey W. Ingram III	L.Ingram@skofirm.com
Monica H. Braun	Monica.Braun@skofirm.com
Linda Bridwell	Linda.Bridwell@amwater.com

		Yes	No
6.	It and its authorized representatives listed above have read and understand the procedures for electronic filing set forth in 807 KAR 5:001 and will fully comply with those procedures unless the Public Service Commission directs otherwise.	☑	☐

Signed /s/Linda Bridwell

Name: Linda Bridwell

Title: Rates and Regulation Manager

Address: 2300 Richmond Road
Lexington, KY 40502

Telephone Number: (859) 268-6373

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 9

Description of Filing Requirement:

Reconciliation of Rate Base and Capital used to determine its Revenue Requirements.

Response:

Capitalization for Forecasted Test Period	$398,755,027
Rate Base for Forecasted Test Period	403,896,142
Difference	$5,141,115
Reconciliation of Difference:	
Accrued Pension	$1,069,885
Other (Net), Miscellaneous and Sundry Items	4,071,230
Total Difference	$5,141,115

For electronic version, see KAW_APP_EX9_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 10

Description of Filing Requirement:

Prepared testimony of each witness the utility proposes to use to support its application, including testimony from the utility's Chief Officer in charge of Kentucky Operations.

Response:

All Testimony is included under separate cover.
For electronic version, refer to the files below:

FILE NAME	DESCRIPTION
KAW_DT_LCB_012216.pdf	Linda C. Bridwell, Direct Testimony
KAW_DT_PRH_012216.pdf	Paul R. Herbert, Direct Testimony
KAW_DT_RVM_012216.pdf	Robert V. Mustich, Direct Testimony
KAW_DT_BEO_012216.pdf	Brent E. O'Neill, Direct Testimony
KAW_DT_DJP_012216.pdf	Donald J. Petry, Direct Testimony
KAW_DT_KNR_012216.pdf	Kevin N. Rogers, Direct Testimony
KAW_DT_NOR_012216.pdf	Nick O. Rowe, Direct Testimony
KAW_DT_SWR_012216.pdf	Scott W. Rungren, Direct Testimony
KAW_DT_JJS_012216.pdf	John J. Spanos, Direct Testimony
KAW_DT_ELS_012216.pdf	Edward L. Spitnagel, Direct Testimony
KAW_DT_JHV_012216.pdf	James H. Vander Weide, Direct Testimony

For electronic version of this document, see KAW_APP_EX10_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 11

Description of Filing Requirement:

Capital Construction Budget with a Three-Year Forecast

Response:

Please see attached.

For electronic version, see KAW_APP_EX11_012916.pdf.

KENTUCKY AMERICAN WATER
CASE NO. 2015-00418
PROPOSED CONSTRUCTION EXPENDITURES

Description		**2016**	**2017**	**2018**
	Normal Recurring Construction	$13,538,227	$11,615,211	$14,500,000
CS-1201-3	ITS Equipment and Systems - Centrally Sponsored	1,441,132	1,271,839	1,142,194
Current Investment Projects				
I12-020003	I-75 Main Extension			1,100,000
I12-020011	New Circle Rd Main Relocation	775,000		
I12-020019	New Ground Storage Tank			2,000,000
I12-020021	Power Reliability at Remote Sites	200,000	900,000	
I12-020024	US 60 Replacement/Upgrade			1,250,000
I12-020032	RRS Filter Building Replacement	2,324,298		
I12-020037	KRS1 Chemical Storage and Feed Improvements	500,000	1,700,000	1,000,000
I12-020039	Georgetown Bypass and US 25 Area	250,000	950,000	900,000
I12-020040	KRS Valve House Rehabilitation (Phase 2)	950,000		
I12-020056	KRS Valve House Rehabilitation (Phase 1.B)	300,000		
I12-020043	Athens Boonesboro Main Extension	1,051,100		
I12-020049	KRS - Raw Water Access			1,000,000
I12-020050	Paving Field Ops and Front Entrance		350,000	
I12-020051	KRS High Service Pumps Replacement	1,000,000	1,460,000	
I12-020052	Millersburg Tank Replacement	450,000		
I12-020055	New Circle Rd Main Relocation Phase 2	775,000		
I12-000001	Post Acquisition BD Capex	60,000		60,000
	Total	$23,614,757	$18,247,050	$22,952,194

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 12

Description of Filing Requirement:

Description of Forecast Factors

Response:

Description of Forecast Factors used in preparing Kentucky-American Water's Forecasted Period is incorporated in each witness's prefiled testimony.

For electronic version, see KAW_APP_EX12_012916.pdf for this document and refer to KAW_APP_EX10_012916.pdf for electronic file names for each witness's prefiled testimony.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 13

Description of Filing Requirement:

Annual and monthly budget for the twelve month preceding the filing date, the base period and the forecasted period.

Response:

Please see attached for the annual and monthly budgets for the 12 months preceding the filing date, the base period, and the forecast period.

For electronic version, see KAW_APP_EX13_012916.pdf for this document.

Kentucky American Water
Case No. 2015-00418
Budget for 12 Months Preceding the Filing Date, Water Business Units Only

Line	Line Description	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Total
P02	Water revenues - residential	$3,952,612	$3,624,999	$3,543,455	$3,718,092	$3,755,091	$4,254,631	$4,610,238	$4,495,071	$4,490,315	$4,204,626	$3,842,917	$3,784,617	$48,276,664
P03	Water revenues - commercial	1,573,902	1,544,673	1,547,898	1,623,561	1,674,891	1,863,631	2,064,114	2,091,087	2,135,687	1,966,040	1,730,872	1,557,488	21,373,844
P04	Water revenues - industrial	151,721	174,151	163,960	175,348	188,986	193,180	237,752	216,761	229,767	197,778	166,376	156,661	2,252,441
P05	Water revenues - public fire	304,003	304,300	304,805	304,562	306,341	306,938	305,812	305,376	303,103	304,996	311,709	311,709	3,673,656
P06	Water revenues - private fire	200,636	210,550	205,492	206,408	217,397	211,286	212,681	219,963	201,118	208,867	224,987	224,987	2,544,371
P07	Water revenues - public authority	442,869	448,536	439,235	476,862	495,151	551,455	636,443	692,769	732,986	625,545	526,784	449,099	6,517,734
P08	Water revenues - sales for resale	130,107	145,961	129,034	122,414	135,507	191,868	199,028	189,517	190,011	163,265	137,760	114,163	1,848,636
P09	Water revenues - other	0	0	0	0	0	0	0	0	0	0	5,583	5,583	11,166
P11	Other revenues	145,041	146,506	149,943	151,915	174,219	187,804	193,645	203,578	167,262	166,034	179,040	176,065	2,041,052
	Total Revenues	6,900,890	6,599,675	6,483,822	6,779,163	6,947,584	7,760,793	8,459,713	8,414,122	8,450,250	7,837,150	7,126,028	6,780,372	88,539,564
P13	Purchased water	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	18,000	18,000	166,000
P14	Fuel and power	279,003	273,725	278,212	282,415	330,845	377,417	373,124	376,458	355,066	317,495	281,795	289,213	3,814,769
P15	Chemicals	113,579	96,549	107,482	120,212	126,251	141,359	171,630	168,752	131,715	105,651	118,458	113,525	1,515,162
P16	Waste disposal	26,683	26,683	26,683	26,683	26,683	26,683	26,683	26,683	26,683	26,683	21,683	21,683	310,196
P17	Salaries and wages	611,304	560,396	611,312	622,881	596,913	622,881	648,848	596,913	622,881	622,881	583,946	623,727	7,324,881
P18	Pension expense	30,243	30,243	30,243	30,243	30,243	30,243	30,243	30,243	30,243	30,243	63,243	63,243	428,921
P19	Group insurance expense	134,176	134,176	134,176	134,176	134,176	134,176	134,176	134,176	134,176	134,176	134,176	134,176	1,610,109
P20	Other benefits	33,685	34,602	31,276	29,397	32,472	29,094	31,127	32,242	32,892	31,876	33,895	59,944	412,502
P21	Service Company Costs	684,968	645,680	670,207	677,270	649,567	661,312	674,886	638,823	647,140	639,880	663,789	689,188	7,942,710
P22	Contracted services	49,728	53,973	59,147	61,576	65,179	60,561	63,961	59,183	50,542	57,790	48,954	52,411	683,007
P23	Building Maintenance and Services	47,373	56,480	51,359	46,906	53,894	45,822	46,320	47,790	45,939	49,464	38,936	44,140	574,421
P24	Telecommunication expenses	22,776	22,438	22,903	22,481	22,881	22,691	22,703	22,887	22,606	22,755	18,691	18,865	264,676
P25	Postage, printing and stationary	1,615	1,365	1,565	1,365	1,365	1,815	1,365	5,365	1,565	1,615	1,365	1,565	21,930
P26	Office supplies and services	16,797	16,961	19,322	17,529	17,272	19,961	17,397	17,279	18,022	18,686	17,761	17,561	214,543
P27	Advertising & marketing expenses	1,000	750	1,000	1,000	750	1,000	1,000	750	1,000	1,000	750	1,000	11,000
P28	Employee related expense travel & ent	6,070	11,721	11,968	19,431	17,674	13,936	21,751	13,554	11,780	14,489	9,073	7,407	158,855
P29	Miscellaneous expenses	178,377	93,010	74,514	97,039	148,160	104,698	79,029	81,665	84,203	71,532	77,296	74,944	1,164,467
P30	Rents	2,393	2,393	5,728	2,817	2,493	2,493	2,569	2,543	2,493	2,510	2,493	3,021	33,949
P31	Transportation	33,961	34,136	66,037	34,086	34,086	34,086	34,586	34,186	34,086	34,086	24,086	24,586	422,010
P32	Uncollectible accounts expense	74,315	72,450	63,358	63,200	55,786	63,078	63,338	70,713	62,711	63,889	79,789	85,307	817,933
P33	Customer accounting, other	85,242	80,242	85,242	80,242	85,242	80,242	85,242	80,242	85,242	80,242	95,242	95,242	1,017,903
P34	Regulatory expense	20,066	20,066	20,066	20,066	20,066	20,066	20,066	20,066	20,066	19,448	19,448	19,448	238,936
P35	Insurance other than group	56,167	56,167	56,167	56,167	56,167	56,167	56,167	56,167	56,167	56,167	56,167	56,167	674,009
P36	Maintenance supplies and services	117,676	135,376	157,376	150,151	149,626	139,501	147,876	144,876	136,651	131,976	154,876	407,088	1,973,046
	Total O&M	2,640,196	2,472,581	2,598,341	2,610,331	2,670,792	2,702,282	2,767,086	2,674,556	2,626,869	2,547,534	2,563,912	2,921,453	31,795,933
P39	Depreciation	999,563	998,672	998,435	998,563	999,094	1,000,089	1,001,584	1,002,377	1,002,952	1,003,387	1,006,448	1,006,118	12,017,282
P40	Amortization	19,519	19,519	19,519	19,519	19,519	19,519	19,519	19,519	19,519	19,519	19,519	19,519	234,233
P41	Removal costs, net	154,995	154,801	154,723	154,698	154,725	154,828	155,016	155,077	155,102	155,121	155,065	154,939	1,859,091
P42	Current federal income taxes - operating	644,720	457,701	480,676	563,113	482,767	845,681	1,071,672	976,953	1,137,524	977,418	662,281	377,037	8,677,543
P43	Current state income taxes - operating	117,641	83,663	87,269	102,097	86,811	152,936	193,717	177,054	205,738	177,120	118,650	85,418	1,588,114
P44	Deferred federal income tax expense	(77,400)	54,597	(38,654)	(22,860)	89,679	(8,868)	(15,905)	93,665	(29,732)	(40,920)	55,890	75,602	135,094
P45	Deferred state income tax expense	(17,121)	6,951	(10,055)	(7,175)	13,349	(4,623)	(5,906)	14,076	(8,428)	(10,469)	7,187	10,782	(11,433)
P46	Amortization of investment tax credits	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(84,792)
P47	General taxes	484,750	474,444	473,432	473,572	471,962	475,886	477,544	473,278	474,771	472,937	485,063	487,673	5,725,311
	total Other Operating Expenses	2,319,601	2,243,283	2,158,279	2,274,462	2,310,841	2,628,382	2,890,176	2,904,933	2,950,381	2,747,048	2,503,037	2,210,022	30,140,443
	Utility Operating Income	1,941,094	1,883,811	1,727,202	1,894,369	1,965,951	2,430,129	2,802,452	2,834,634	2,873,000	2,542,569	2,059,079	1,648,898	26,603,188
P52	Allowance for funds used during construction	(17,247)	(18,567)	(19,868)	(25,381)	(35,921)	(48,514)	(62,095)	(76,076)	(90,152)	(102,400)	(111,026)	(103,189)	(710,437)
P55	Miscellaneous amortization	35	35	35	35	35	35	35	35	35	35	35	35	420
P56	Other miscellaneous deductions	5,500	5,500	7,000	9,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	71,500
P59	Interest on long-term debt	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	12,153,645
P60	Interest on short-term debt	1,909	1,254	1,794	2,190	3,126	5,153	5,340	5,587	7,453	7,594	6,723	8,453	56,574
P62	Allowance for borrowed funds used during const	(8,116)	(8,738)	(9,350)	(11,944)	(16,904)	(22,830)	(29,221)	(35,800)	(42,424)	(48,188)	(52,247)	(48,560)	(334,323)
P63	Amortization of debt expense	8,138	8,138	8,138	8,138	8,138	8,138	8,138	8,138	8,138	8,138	8,138	8,138	97,658
P65	Common Dividends	0	0	2,665,060	0	0	1,926,763	0	0	2,499,938	0	0	4,051,721	11,143,483
	Other Net Deductions	1,003,023	1,000,426	3,665,613	995,342	976,777	2,887,049	940,500	920,187	3,401,292	883,483	869,926	4,934,902	22,478,520
	Net Income	$938,070	$883,385	($1,938,411)	$899,027	$989,175	($456,920)	$1,861,952	$1,914,447	($528,292)	$1,659,086	$1,189,153	($3,286,004)	$4,124,668

Kentucky American Water
Case No. 2015-00418
Budgeted Construction Expenditures, Adjusted with Known and Measurable Changes, Water Business Units Only
For the Twelve Months Preceding the Filing Date

Recurring Project	Project #	Description	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Total
DV	D12-**01-P	Projects Funded by Others	$242,519	$194,679	$137,578	$64,442	$120,304	$227,320	$287,977	$210,000	$210,000	$180,000	$120,478	$100,000	$2,095,297
A	R12-**A1	Mains - New	14,137	3,996	18,658	11,402	16,684	41,418	123,630	125,000	138,438	119,563	88,000	79,000	779,926
B	R12-**B1	Mains - Replaced / Restored	458,183	540,127	163,952	470,176	496,384	507,895	400,038	267,000	360,000	350,000	262,358	155,000	4,431,112
C	R12-**C1	Mains - Unscheduled	18,198	(2,390)	9,408	15,758	22,013	21,310	19,647	27,871	122,115	31,531	36,065	37,000	358,526
D	R12-**D1	Mains - Relocated	6,228	10,662	11,445	54,144	2,779	125,975	21,115	100,000	222,500	197,500	167,500	152,500	1,072,349
E	R12-**E1	Hydrants, Valves, and Manholes - New	33,056	(2,557)	7,091	7,099	(9)	12,693	11,860	35,000	45,000	45,000	45,000	45,000	284,233
F	R12-**F1	Hydrants, Valves, and Manholes - Replaced	36,994	42,354	32,965	66,040	37	64,159	117,518	20,000	129,707	58,500	57,500	57,500	683,274
G	R12-**G1	Services and Laterals - New	85,063	105,925	39,352	36,619	80,684	142,961	91,283	76,500	80,500	73,500	63,500	52,000	927,888
H	R12-**H1	Services and Laterals - Replaced	18,054	55,813	26,286	40,438	37,388	29,906	43,466	15,000	99,231	55,438	67,433	49,020	537,473
I	R12-**I1	Meters - New	101,992	31,407	24,621	16,646	75,066	58,812	51,650	50,300	55,700	32,000	32,000	32,000	562,194
J	R12-**J1	Meters - Replaced	215	10,538	6,053	44,817	64,465	26,897	41,627	65,765	51,361	51,063	61,241	51,241	475,281
K	R12-**K1	ITS Equipment and Systems	11,891	28,840	10,299	14,694	373	2,761	622	21,204	40,537	-	-	-	131,221
L	R12-**L1	SCADA Equipment and Systems	68,843	24,877	33,785	(17,950)	1,603	20,028	6,788	21,828	10,000	-	23,400	30,676	223,878
M	R12-**M1	Security Equipment and Systems	18	3,096	17	28,117	(13,567)	100	92	30,000	30,000	30,000	30,000	30,000	167,872
N	R12-**N1	Offices and Operations Centers	-	(0)	(6,530)	10,663	2	5,069	10,380	-	-	-	-	-	19,584
O	R12-**O1	Vehicles	-	612	-	(7,162)	-	-	99,047	405,100	12,500	12,500	50,500	81,500	654,597
P	R12-**P1	Tools and Equipment	65,594	14,259	28,626	65,012	21,958	143,999	14,601	-	36,000	7,200	-	-	397,249
Q	R12-**Q1	Process Plant Facilities and Equipment	8,287	151,837	52,825	102,282	145,051	100,774	197,476	152,450	413,056	190,991	258,975	548,208	2,322,212
S	R12-**S1	Engineering Studies	42,687	21,774	(13,193)	41,063	13,688	36,909	179,374	29,832	29,832	159,832	29,832	29,832	601,460
		Subtotal:	**$1,211,959**	**$1,235,848**	**$583,238**	**$1,064,299**	**$1,084,904**	**$1,568,986**	**$1,718,192**	**$1,652,850**	**$2,086,476**	**$1,594,617**	**$1,393,781**	**$1,530,477**	**$16,725,626**
Centrally Sponsored Project	**Project #**	**Description**													
CS-1201-3	R12-01K3	ITS Equipment and Systems - Centrally Sponsored	94,536	115,476	133,555	124,808	118,359	118,644	489,003	79,560	75,781	76,518	59,213	256,025	$1,741,478
			-	-	-	-	-	-	-	-	-	-	-	-	-
		Subtotal:	**$94,536**	**$115,476**	**$133,555**	**$124,808**	**$118,359**	**$118,644**	**$489,003**	**$79,560**	**$75,781**	**$76,518**	**$59,213**	**$256,025**	**$1,741,478**
Investment Project	**Project #**	**Desription:**													
	I12-020011	New Circle Rd Main Relocation Phase 1	10,745	16,180	270,802	204,889	515,573	302,420	128,823	226,449	222,613	14,282	14,372	16,755	$1,943,903
	I12-020032	RRS Filter Building Replacement	7,972	9,173	599,393	693,241	830,167	1,117,905	1,088,660	1,574,555	1,503,873	1,260,942	1,098,988	1,040,997	10,825,867
	I12-020043	Athens Boonesboro Main Extension								30,000	50,000	100,000	100,000	75,000	355,000
	I12-020056	KRS Valve House Rehabilitation								115,921	116,696	124,817	126,082	116,484	600,000
		Subtotal:	**$18,717**	**$25,354**	**$870,195**	**$898,130**	**$1,345,741**	**$1,420,325**	**$1,217,482**	**$1,946,924**	**$1,893,182**	**$1,500,041**	**$1,339,442**	**$1,249,236**	**$13,724,770**
		TOTAL WATER SCEP:	**$1,325,212**	**$1,376,677**	**$1,586,988**	**$2,087,237**	**$2,549,004**	**$3,107,955**	**$3,424,678**	**$3,679,335**	**$4,055,439**	**$3,171,176**	**$2,792,436**	**$3,035,737**	**$32,191,874**

Kentucky American Water
Case No. 2015-00418
Budget for 12 Months Preceding the End of Base Year, Water Business Units Only

Line	Line Description	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	Total
P02	Water revenues - residential	3,755,091	4,254,631	4,610,238	4,495,071	4,490,315	4,204,626	3,842,917	3,784,617	3,834,457	3,715,409	3,838,231	3,713,471	48,539,075
P03	Water revenues - commercial	1,674,891	1,863,631	2,064,114	2,091,087	2,135,687	1,966,040	1,730,872	1,557,488	1,573,324	1,590,809	1,629,226	1,681,355	21,558,525
P04	Water revenues - industrial	188,986	193,180	237,752	216,761	229,767	197,778	166,376	156,661	210,302	200,623	196,449	199,819	2,394,454
P05	Water revenues - public fire	306,341	306,938	305,812	305,376	303,103	304,996	311,709	311,709	311,709	311,709	311,709	311,709	3,702,822
P06	Water revenues - private fire	217,397	211,286	212,681	219,963	201,118	208,867	224,987	224,987	224,987	224,987	224,987	224,987	2,621,234
P07	Water revenues - public authority	495,151	551,455	636,443	692,769	732,986	625,545	526,784	449,099	422,232	419,167	390,015	394,668	6,336,315
P08	Water revenues - sales for resale	135,507	191,868	199,028	189,517	190,011	163,265	137,760	114,163	133,895	119,861	136,802	132,771	1,844,448
P09	Water revenues - other	0	0	0	0	0	0	5,583	5,583	7,054	7,054	7,054	7,054	39,382
P11	Other revenues	174,219	187,804	193,645	203,578	167,262	166,034	179,040	176,065	180,786	171,074	186,593	173,948	2,160,048
	Total Revenues	6,947,584	7,760,793	8,459,713	8,414,122	8,450,250	7,837,150	7,126,028	6,780,372	6,898,746	6,760,693	6,921,066	6,839,782	89,196,301
P13	Purchased water	13,000	13,000	13,000	13,000	13,000	13,000	18,000	18,000	46,696	24,191	21,575	16,912	223,374
P14	Fuel and power	330,845	377,417	373,124	376,458	355,066	317,495	281,795	289,213	240,571	282,915	316,853	294,683	3,836,436
P15	Chemicals	126,251	141,359	171,630	168,752	131,715	105,651	118,458	113,525	125,482	126,351	117,179	118,405	1,564,757
P16	Waste disposal	26,683	26,683	26,683	26,683	26,683	26,683	21,683	21,683	31,683	31,683	31,683	31,683	330,196
P17	Salaries and wages	596,913	622,881	648,848	596,913	622,881	622,881	583,946	623,727	577,626	577,988	628,347	585,913	7,288,863
P18	Pension expense	30,243	30,243	30,243	30,243	30,243	30,243	63,243	63,243	54,837	54,837	54,837	54,837	527,295
P19	Group insurance expense	134,176	134,176	134,176	134,176	134,176	134,176	134,176	134,176	149,321	149,321	149,321	149,321	1,670,690
P20	Other benefits	32,472	29,094	31,127	32,242	32,892	31,876	33,895	59,944	35,439	36,965	32,762	32,746	421,455
P21	Service Company Costs	649,567	661,312	674,886	638,823	647,140	639,880	663,789	689,188	669,761	677,980	685,752	657,726	7,955,804
P22	Contracted services	65,179	60,561	63,961	59,183	50,542	57,790	48,954	52,411	51,610	49,931	69,671	64,003	693,797
P23	Building Maintenance and Services	53,894	45,822	46,320	47,790	45,939	49,464	38,936	44,140	50,164	63,369	55,500	47,379	588,716
P24	Telecommunication expenses	22,881	22,691	22,703	22,887	22,606	22,755	18,691	18,865	20,737	20,398	20,844	20,422	256,480
P25	Postage, printing and stationary	1,365	1,815	1,365	5,365	1,565	1,615	1,365	1,565	1,615	1,515	1,565	1,365	22,080
P26	Office supplies and services	17,272	19,961	17,397	17,279	18,022	18,686	17,761	17,561	22,863	22,627	25,538	23,695	238,659
P27	Advertising & marketing expenses	750	1,000	1,000	750	1,000	1,000	750	1,000	1,000	750	1,000	1,000	11,000
P28	Employee related expense travel & ent	17,674	13,936	21,751	13,554	11,780	14,489	9,073	7,407	5,570	11,845	13,318	19,920	160,317
P29	Miscellaneous expenses	148,160	104,698	79,029	81,665	84,203	71,532	77,296	74,944	160,828	74,744	62,697	85,172	1,104,969
P30	Rents	2,493	2,493	2,569	2,543	2,493	2,510	2,493	3,021	369	369	5,369	1,119	27,843
P31	Transportation	34,086	34,086	34,586	34,186	34,086	34,086	24,086	24,586	24,283	25,995	45,342	36,474	385,883
P32	Uncollectible accounts expense	55,786	63,078	63,338	70,713	62,711	63,889	79,789	85,307	25,087	(12,256)	27,187	17,870	602,499
P33	Customer accounting, other	85,242	80,242	85,242	80,242	85,242	80,242	95,242	95,242	97,305	92,305	97,305	92,305	1,066,155
P34	Regulatory expense	20,066	20,066	20,066	20,066	20,066	19,448	19,448	19,448	19,448	19,448	19,448	20,115	237,132
P35	Insurance other than group	56,167	56,167	56,167	56,167	56,167	56,167	56,167	56,167	64,617	64,617	64,617	64,617	707,807
P36	Maintenance supplies and services	149,626	139,501	147,876	144,876	136,651	131,976	154,876	407,088	130,475	148,175	170,175	183,646	2,044,939
	Total O&M	2,670,792	2,702,282	2,767,086	2,674,556	2,626,869	2,547,534	2,563,912	2,921,453	2,607,387	2,546,063	2,717,885	2,621,328	31,967,146
P39	Depreciation	999,094	1,000,089	1,001,584	1,002,377	1,002,952	1,003,387	1,006,448	1,006,118	1,022,007	1,021,979	1,022,806	1,023,998	12,112,838
P40	Amortization	19,519	19,519	19,519	19,519	19,519	19,519	19,519	19,519	20,215	20,215	20,215	20,215	237,016
P41	Removal costs, net	154,725	154,828	155,016	155,077	155,102	155,121	155,065	154,939	155,655	155,635	155,749	155,917	1,862,829
P42	Current federal income taxes - operating	482,767	845,681	1,071,672	976,953	1,137,524	977,418	662,281	377,037	653,372	281,198	594,348	694,428	8,754,680
P43	Current state income taxes - operating	86,811	152,936	193,717	177,054	205,738	177,120	118,650	85,418	116,688	49,021	106,293	124,336	1,593,782
P44	Deferred federal income tax expense	89,679	(8,868)	(15,905)	93,665	(29,732)	(40,920)	55,890	75,602	(62,017)	284,059	(31,146)	(120,017)	290,289
P45	Deferred state income tax expense	13,349	(4,623)	(5,906)	14,076	(8,428)	(10,469)	7,187	10,782	(14,315)	48,799	(8,685)	(24,892)	16,874
P46	Amortization of investment tax credits	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(7,066)	(84,792)
P47	General taxes	471,962	475,886	477,544	473,278	474,771	472,937	485,063	487,673	515,684	511,937	509,180	505,542	5,861,457
	Total Other Operating Expenses	2,310,841	2,628,382	2,890,176	2,904,933	2,950,381	2,747,048	2,503,037	2,210,022	2,400,223	2,365,777	2,361,694	2,372,461	30,644,973
	Utility Operating Income	1,965,951	2,430,129	2,802,452	2,834,634	2,873,000	2,542,569	2,059,079	1,648,898	1,891,136	1,848,853	1,841,487	1,845,993	26,584,182
P52	Allowance for funds used during construction	(35,921)	(48,514)	(62,095)	(76,076)	(90,152)	(102,400)	(111,026)	(103,189)	(94,542)	(99,651)	(105,245)	(111,244)	(1,040,055)
P55	Miscellaneous amortization	35	35	35	35	35	35	35	35	0	0	0	0	280
P56	Other miscellaneous deductions	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	7,000	9,500	71,500
P59	Interest on long-term debt	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,012,804	1,031,805	1,031,805	1,031,805	1,031,805	12,229,650
P60	Interest on short-term debt	3,126	5,153	5,340	5,587	7,453	7,594	6,723	8,453	10,642	11,833	14,116	8,559	94,577
P62	Allowance for borrowed funds used during const	(16,904)	(22,830)	(29,221)	(35,800)	(42,424)	(48,188)	(52,247)	(48,560)	(43,273)	(45,611)	(48,169)	(50,913)	(484,142)
P63	Amortization of debt expense	8,138	8,138	8,138	8,138	8,138	8,138	8,138	8,138	7,771	7,771	7,771	7,771	96,190
P65	Common Dividends	0	1,926,763	0	0	2,499,938	0	0	4,051,721	0	0	2,983,964	0	11,462,386
	Other Deductions	976,777	2,887,049	940,500	920,187	3,401,292	883,483	869,926	4,934,902	917,903	911,647	3,891,242	895,478	22,430,386
	Net Income	$989,175	($456,920)	$1,861,952	$1,914,447	($528,292)	$1,659,086	$1,189,153	($3,286,004)	$973,233	$937,206	($2,049,755)	$950,515	$4,153,796

Kentucky American Water
Case No. 2015-00418
Budgeted Construction Expenditures, Adjusted with Known and Measurable Changes, Water Business Units Only
For the Twelve Month Base Period

Recurring Project	Project #	Description	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	Total
DV	D12-**01-P	Projects Funded by Others	$120,304	$227,320	$287,977	$210,000	$210,000	$180,000	$120,478	$100,000	$125,000	$150,000	$220,000	$220,000	$2,171,078
A	R12-**A1	Mains - New	16,684	41,418	123,630	125,000	138,438	119,563	88,000	79,000	15,000	25,000	50,000	85,000	906,732
B	R12-**B1	Mains - Replaced / Restored	496,384	507,895	400,038	267,000	360,000	350,000	262,358	155,000	100,000	100,000	200,000	300,000	3,498,674
C	R12-**C1	Mains - Unscheduled	22,013	21,310	19,647	27,871	122,115	31,531	36,065	37,000	17,250	27,250	26,000	25,500	413,552
D	R12-**D1	Mains - Relocated	2,779	125,975	21,115	100,000	222,500	197,500	167,500	152,500	5,000	7,500	7,500	15,000	1,024,870
E	R12-**E1	Hydrants, Valves, and Manholes - New	(9)	12,693	11,860	35,000	45,000	45,000	45,000	45,000	2,500	5,000	10,000	20,000	277,044
F	R12-**F1	Hydrants, Valves, and Manholes - Replaced	37	64,159	117,518	20,000	129,707	58,500	57,500	57,500	30,000	40,000	40,000	20,000	634,921
G	R12-**G1	Services and Laterals - New	80,684	142,961	91,283	76,500	80,500	73,500	63,500	52,000	35,000	40,000	47,100	52,240	835,268
H	R12-**H1	Services and Laterals - Replaced	37,388	29,906	43,466	15,000	99,231	55,438	67,433	49,020	20,000	40,000	30,000	30,000	516,883
I	R12-**I1	Meters - New	75,066	58,812	51,650	50,300	55,700	32,000	32,000	32,000	10,000	10,000	21,000	27,000	455,528
J	R12-**J1	Meters - Replaced	64,465	26,897	41,627	65,765	51,361	51,063	61,241	51,241	6,000	11,000	21,000	60,000	511,659
K	R12-**K1	ITS Equipment and Systems	373	2,761	622	21,204	40,537	-	-	-	-	-	-	102,453	167,951
L	R12-**L1	SCADA Equipment and Systems	1,603	20,028	6,788	21,828	10,000	-	23,400	30,676	-	30,000	5,000	35,000	184,322
M	R12-**M1	Security Equipment and Systems	(13,567)	100	92	30,000	30,000	30,000	30,000	30,000	-	3,000	3,000	5,000	147,626
N	R12-**N1	Offices and Operations Centers	2	5,069	10,380	-	-	-	-	-	-	-	-	25,000	40,451
O	R12-**O1	Vehicles	-	-	99,047	405,100	12,500	12,500	50,500	81,500	-	330,000	330,060	-	1,321,207
P	R12-**P1	Tools and Equipment	21,958	143,999	14,601	-	36,000	7,200	-	-	2,000	5,000	10,000	30,000	270,758
Q	R12-**Q1	Process Plant Facilities and Equipment	145,051	100,774	197,476	152,450	413,056	190,991	258,975	548,208	10,000	50,000	75,000	95,000	2,236,981
S	R12-**S1	Engineering Studies	13,688	36,909	179,374	29,832	29,832	159,832	29,832	29,832	3,500	3,500	3,500	3,500	523,130
		Subtotal:	**$1,084,904**	**$1,568,986**	**$1,718,192**	**$1,652,850**	**$2,086,476**	**$1,594,617**	**$1,393,781**	**$1,530,477**	**$381,250**	**$877,250**	**$1,099,160**	**$1,150,693**	**$16,138,636**
Centrally Sponsored Project	**Project #**	**Description**													
CS-1201-3	R12-01K3	ITS Equipment and Systems - Centrally Sponsored	$118,359	$118,644	$489,003	$79,560	$75,781	$76,518	$59,213	$256,025	$50,865	$73,996	$110,389	$110,185	$1,618,538
			-	-	-	-	-	-	-	-	-	-	-	-	-
		Subtotal:	**$118,359**	**$118,644**	**$489,003**	**$79,560**	**$75,781**	**$76,518**	**$59,213**	**$256,025**	**$50,865**	**$73,996**	**$110,389**	**$110,185**	**$1,618,538**
Investment Project	**Project #**	**Desription:**													
	I12-020011	New Circle Rd Main Relocation Phase 1	515,573	302,420	128,823	226,449	222,613	14,282	14,372	16,755	14,555	44,997	129,999	179,203	$1,810,039
	I12-020032	RRS Filter Building Replacement	830,167	1,117,905	1,088,660	1,574,555	1,503,873	1,260,942	1,098,988	1,040,997	787,398	582,829	586,519	210,854	11,683,688
	I12-020043	Athens Boonesboro Main Extension				30,000	50,000	100,000	100,000	75,000	50,000	75,000	100,000	150,000	730,000
	I12-020056	KRS Valve House Rehabilitation				115,921	116,696	124,817	126,082	116,484	63,638	78,788	157,575		900,000
	I12-020040	KRS Valve House Rehabilitation (Phase 2)												175,000	175,000
	I12-020051	KRS High Service Pumps Replacement												75,000	75,000
	I12-020052	Millersburg Tank Replacement										50,000	100,000	150,000	300,000
	I12-020055	New Circle Rd Main Relocation Phase 2									15,000	45,000	130,000	179,000	369,000
		Subtotal:	**$1,345,741**	**$1,420,325**	**$1,217,482**	**$1,946,924**	**$1,893,182**	**$1,500,041**	**$1,339,442**	**$1,249,236**	**$915,590**	**$781,614**	**$974,092**	**$540,057**	**$15,123,726**
		TOTAL WATER SCEP:	**$2,549,004**	**$3,107,955**	**$3,424,678**	**$3,679,335**	**$4,055,439**	**$3,171,176**	**$2,792,436**	**$3,035,737**	**$1,347,705**	**$1,732,860**	**$2,183,641**	**$1,800,935**	**$32,880,901**

Kentucky American Water
Case No. 2015-00418
Budget for 12 Months Preceding the End of Forecast Year, Adjusted to Remove Rate Case Results, Water Business Units Only

Line	Line Description	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Total
P02	Water revenues - residential	$4,186,345	$4,173,204	$3,849,042	$3,787,840	$3,827,608	$3,643,417	$3,848,663	$3,718,674	$3,778,534	$4,070,051	$4,697,984	$4,016,598	$47,597,960
P03	Water revenues - commercial	2,071,283	1,982,842	1,784,396	1,578,404	1,563,210	1,543,924	1,615,557	1,682,354	1,484,004	1,825,500	2,079,753	1,959,897	21,171,124
P04	Water revenues - industrial	222,383	206,768	196,580	189,994	210,302	200,623	196,449	199,819	201,395	236,553	231,679	247,937	2,540,482
P05	Water revenues - public fire	311,709	311,709	311,709	311,709	311,709	311,709	311,709	311,709	311,709	311,709	311,709	311,709	3,740,508
P06	Water revenues - private fire	224,987	224,987	224,987	224,987	224,987	224,987	224,987	224,987	224,987	224,987	224,987	224,987	2,699,844
P07	Water revenues - public authority	608,355	576,776	463,416	440,698	422,232	419,167	390,015	394,668	481,815	539,550	552,994	615,206	5,904,892
P08	Water revenues - sales for resale	170,469	165,482	133,581	118,448	133,896	119,861	136,802	132,771	141,485	157,766	185,513	178,676	1,774,750
P09	Water revenues - other	7,054	7,054	7,054	7,054	7,054	7,054	7,054	7,054	7,054	7,054	7,054	7,054	84,644
P11	Other revenues	169,898	168,670	151,676	172,528	181,486	171,774	187,294	174,649	180,521	201,183	198,599	213,569	2,171,847
	Total Revenues	7,972,483	7,817,492	7,122,441	6,831,662	6,882,483	6,642,516	6,918,529	6,846,684	6,811,504	7,574,352	8,490,272	7,775,633	87,686,051
P13	Purchased water	16,097	18,137	12,747	15,072	46,135	23,927	21,345	16,744	14,113	16,149	14,494	15,295	230,252
P14	Fuel and power	382,156	307,142	298,184	271,426	243,457	284,263	326,093	302,227	307,528	431,110	436,458	421,543	4,011,587
P15	Chemicals	177,306	163,426	121,823	141,794	128,111	126,420	119,987	121,472	118,715	153,854	195,229	200,242	1,768,379
P16	Waste disposal	31,683	31,683	31,683	31,683	31,331	31,331	31,331	31,331	31,331	31,331	31,331	31,331	377,381
P17	Salaries and wages	611,653	585,913	617,394	617,394	591,623	591,990	643,605	600,170	626,554	626,554	600,170	652,937	7,365,956
P18	Pension expense	54,837	54,837	54,837	54,837	46,366	46,366	46,366	46,366	46,366	46,366	46,366	46,366	590,278
P19	Group insurance expense	149,321	149,321	149,321	149,321	147,975	147,975	147,975	147,975	147,975	147,975	147,975	147,975	1,781,081
P20	Other benefits	33,885	33,779	38,892	64,580	35,087	36,481	32,407	32,368	33,917	30,394	29,872	34,616	436,279
P21	Service Company Costs	668,114	648,176	655,380	648,693	676,451	684,753	692,603	664,296	671,651	677,556	659,270	694,112	8,041,053
P22	Contracted services	63,466	66,317	57,181	56,431	51,727	50,451	68,441	64,398	73,563	69,375	70,358	66,963	758,670
P23	Building Maintenance and Services	46,294	45,559	42,151	49,289	51,138	64,277	56,447	48,367	43,669	52,607	47,318	48,585	595,700
P24	Telecommunication expenses	20,507	20,696	20,631	20,826	20,739	20,405	20,844	20,428	20,783	20,596	20,608	23,485	250,547
P25	Postage, printing and stationary	1,565	1,765	1,365	1,565	1,615	1,515	1,565	1,365	1,515	1,815	1,365	5,515	22,530
P26	Office supplies and services	24,238	24,852	23,227	23,227	22,864	22,628	25,536	23,695	23,239	23,128	23,363	23,445	283,442
P27	Advertising & marketing expenses	1,000	1,000	750	1,000	1,000	750	1,000	1,000	750	1,000	1,000	750	11,000
P28	Employee related expense travel & ent	13,030	13,785	9,673	8,452	5,570	11,845	13,318	19,920	13,674	15,786	22,851	14,354	162,258
P29	Miscellaneous expenses	67,102	60,196	64,519	69,044	159,955	74,776	62,953	85,094	135,787	93,282	67,708	66,608	1,007,025
P30	Rents	2,369	1,119	1,119	2,969	369	369	5,369	1,119	1,119	2,369	1,119	1,119	20,528
P31	Transportation	36,475	40,505	36,475	31,638	24,587	26,320	45,908	36,930	37,548	37,780	37,747	36,930	428,843
P32	Uncollectible accounts expense	116,163	73,144	101,669	83,525	26,080	(12,741)	28,264	18,578	90,559	72,137	51,539	36,309	685,226
P33	Customer accounting, other	97,305	92,305	97,305	97,305	97,305	92,305	97,305	92,305	97,305	92,305	97,305	92,305	1,142,663
P34	Regulatory expense	20,115	25,667	25,667	25,667	19,448	19,448	19,448	20,115	20,115	20,115	20,115	20,115	256,035
P35	Insurance other than group	64,618	64,618	64,618	64,618	68,739	68,739	68,739	68,739	68,739	68,739	68,739	68,739	808,380
P36	Maintenance supplies and services	179,516	177,185	193,612	189,757	140,802	159,322	182,342	196,438	197,261	194,962	203,766	200,627	2,215,591
	Total O&M	2,878,813	2,701,127	2,720,223	2,720,111	2,638,473	2,573,917	2,759,191	2,661,440	2,823,775	2,927,284	2,896,066	2,950,266	33,250,684
P39	Depreciation	1,061,089	1,062,566	1,063,683	1,064,391	1,073,599	1,073,569	1,074,425	1,075,658	1,076,860	1,078,036	1,108,752	1,110,881	12,923,510
P40	Amortization	20,215	20,215	20,215	20,215	20,215	20,215	20,215	20,215	20,215	20,215	20,215	20,215	242,580
P41	Removal costs, net	161,626	161,824	161,972	162,056	149,639	149,618	149,728	149,889	150,037	154,274	154,657	154,935	1,860,254
P42	Current federal income taxes - operating	974,794	1,000,914	437,641	505,934	690,396	552,057	620,647	676,349	426,600	879,577	1,206,129	840,879	8,811,919
P43	Current state income taxes - operating	168,873	168,794	67,845	81,083	(47,745)	20,034	(9,107)	(50,142)	120,210	(64,931)	(55,241)	(7,597)	392,077
P44	Deferred federal income tax expense	(148,824)	(158,252)	154,703	(19,759)	0	0	0	0	0	0	0	0	(172,133)
P45	Deferred state income tax expense	(30,146)	(31,865)	25,208	(6,608)	0	0	0	0	0	0	0	0	(43,411)
P46	Amortization of investment tax credits	(7,066)	(7,066)	(7,066)	(7,066)	0	0	0	0	0	0	0	0	(28,264)
P47	General taxes	506,353	504,525	506,792	506,439	529,883	526,153	523,286	519,503	521,459	521,216	519,413	522,485	6,207,508
	Total Other Operating Expenses	2,706,912	2,721,656	2,430,993	2,306,685	2,415,986	2,341,647	2,379,195	2,391,473	2,315,382	2,588,387	2,953,926	2,641,798	30,194,040
	Utility Operating Income	2,386,757	2,394,709	1,971,224	1,804,866	1,828,025	1,726,952	1,780,144	1,793,771	1,672,348	2,058,682	2,640,280	2,183,569	24,241,327
P51	Interest income	0	0	0	0	(3,042)	(3,042)	(3,042)	(3,042)	(3,042)	(3,042)	(3,042)	(3,042)	(24,340)
P52	Allowance for funds used during construction	(32,094)	(35,124)	(38,653)	(34,193)	(69,203)	(72,913)	(76,974)	(81,329)	(84,813)	(86,734)	(24,088)	(23,854)	(659,973)
P56	Other miscellaneous deductions	5,500	5,500	5,500	5,500	5,500	5,500	7,000	9,500	5,500	5,500	5,500	5,500	71,500
P59	Interest on long-term debt	1,049,064	1,049,639	1,049,064	1,049,639	1,022,323	1,022,323	1,022,323	1,022,323	1,022,323	1,022,323	1,030,874	1,039,995	12,402,213
P60	Interest on short-term debt	6,500	1,571	3,962	6,522	2,839	3,157	3,766	2,283	2,282	3,045	1,631	877	38,436
P62	Allowance for borrowed funds used during const	(14,710)	(16,096)	(17,710)	(15,670)	(31,182)	(32,852)	(34,681)	(36,642)	(37,962)	(38,572)	(10,869)	(10,763)	(297,708)
P63	Amortization of debt expense	7,911	7,916	7,911	7,916	7,850	7,850	7,850	7,850	7,850	7,850	7,921	7,996	94,671
P65	Common Dividends	2,325,162	0	0	3,299,172	0	0	2,379,184	0	0	1,971,048	0	0	9,974,565
	Other Deductions	3,347,334	1,013,406	1,010,074	4,318,886	935,085	930,023	3,305,425	920,943	912,138	2,881,418	1,007,926	1,016,708	21,599,365
	Net Income	(960,577)	1,381,303	961,150	(2,514,020)	892,940	796,929	(1,525,281)	872,828	760,209	(822,736)	1,632,354	1,166,861	2,641,962

Kentucky American Water
Case No. 2015-00418
Budgeted Construction Expenditures, Adjusted with Known and Measurable Changes, Water Business Units Only
For the Twelve Months Preceding the End of the Forecast Period

Recurring Project	Project #	Description	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Total
DV	D12-**01-P	Projects Funded by Others	$250,000	$205,000	$150,000	$150,000	$125,000	$150,000	$220,000	$220,000	$230,000	$250,000	$275,000	$275,000	$2,500,000
A	R12-**A1	Mains - New	150,000	75,000	60,000	30,000	10,000	20,000	20,000	75,000	100,000	100,000	100,000	100,000	840,000
B	R12-**B1	Mains - Replaced / Restored	400,000	300,000	200,000	126,000	100,000	100,000	200,000	300,000	450,000	450,000	425,000	470,000	3,521,000
C	R12-**C1	Mains - Unscheduled	30,500	32,250	37,250	37,000	17,250	27,250	26,000	25,500	20,500	25,500	25,500	30,500	335,000
D	R12-**D1	Mains - Relocated	30,000	20,000	10,000	10,000	10,000	10,000	20,000	40,000	40,000	50,000	50,000	50,000	340,000
E	R12-**E1	Hydrants, Valves, and Manholes - New	20,000	15,100	10,000	5,000	2,500	5,000	10,000	20,000	30,000	30,000	27,500	25,000	200,100
F	R12-**F1	Hydrants, Valves, and Manholes - Replaced	37,800	36,000	25,000	13,250	30,000	40,000	40,000	20,000	21,000	23,000	28,000	38,000	352,050
G	R12-**G1	Services and Laterals - New	63,500	53,500	43,000	43,800	35,000	40,000	47,100	52,240	62,500	80,000	80,000	78,500	679,140
H	R12-**H1	Services and Laterals - Replaced	55,000	52,500	30,000	17,500	20,000	40,000	30,000	30,000	32,500	45,000	45,000	55,000	452,500
I	R12-**I1	Meters - New	37,000	52,000	37,000	21,220	10,000	10,000	21,000	27,000	27,000	52,000	42,000	38,000	374,220
J	R12-**J1	Meters - Replaced	80,000	36,000	36,000	21,000	5,500	11,000	21,000	70,000	51,000	76,000	52,300	51,000	510,800
K	R12-**K1	ITS Equipment and Systems	-	-	-	-	-	105,586	-	124,257	-	-	131,445	-	361,288
L	R12-**L1	SCADA Equipment and Systems	-	35,000	35,000	25,000	5,000	5,000	10,000	20,000	30,000	35,000	35,000	35,000	270,000
M	R12-**M1	Security Equipment and Systems	16,350	20,000	10,000	10,000	2,000	2,000	2,000	7,028	15,000	20,000	40,000	40,000	184,378
N	R12-**N1	Offices and Operations Centers	25,000	-	-	-	-	-	-	-	-	25,000	50,000	50,000	150,000
O	R12-**O1	Vehicles	-	-	-	-	-	-	70,000	-	160,000	225,000	205,000	-	660,000
P	R12-**P1	Tools and Equipment	25,000	14,000	7,500	4,060	2,000	5,000	10,000	30,000	25,000	58,000	42,500	27,500	250,560
Q	R12-**Q1	Process Plant Facilities and Equipment	200,000	200,000	200,000	81,000	10,000	50,000	70,000	80,000	160,000	160,000	200,000	160,000	1,571,000
S	R12-**S1	Engineering Studies	5,000	5,000	3,000	3,000	3,500	3,500	3,500	3,500	5,000	5,000	5,000	5,000	50,000
		Subtotal:	**$1,425,150**	**$1,151,350**	**$893,750**	**$597,830**	**$387,750**	**$624,336**	**$820,600**	**$1,144,525**	**$1,459,500**	**$1,709,500**	**$1,859,245**	**$1,528,500**	**$13,602,036**
Centrally Sponsored Project	**Project #**	**Description**													
CS-1201-3	R12-01K3	ITS Equipment and Systems - Centrally Sponsored	165,631	139,962	149,466	120,875	90,190	106,803	144,813	158,029	134,307	150,056	138,118	138,521	$1,636,771
			-	-	-	-	-	-	-	-	-	-	-	-	-
		Subtotal:	**$165,631**	**$139,962**	**$149,466**	**$120,875**	**$90,190**	**$106,803**	**$144,813**	**$158,029**	**$134,307**	**$150,056**	**$138,118**	**$138,521**	**$1,636,771**
Investment Project	**Project #**	**Desription:**													
	I12-020032	RRS Filter Building Replacement	-	-	-	-	-	-	-	-	-	-	-	-	$0
	I12-020052	Millersburg Tank Replacement	-	-	-	-	-	-	-	-	-	-	-	-	-
	I12-020011	New Circle Rd Main Relocation Phase 1	-	-	-	-	-	-	-	-	-	-	-	-	-
	I12-020040	KRS Valve House Rehabilitation (Phase 2)	75,000	150,000	200,000	68,015	-	-	-	-	-	-	-	-	493,015
	I12-020043	Athens Boonesboro Main Extension	71,100	25,000	20,000	10,000	-	-	-	-	-	-	-	-	126,100
	I12-000001	Post Acquisition BD Capex	-	20,000	20,000	20,000	-	-	-	-	-	-	-	-	60,000
	I12-020051	KRS High Service Pumps Replacement	150,000	150,000	150,000	100,000	150,000	200,000	200,000	200,000	220,000	220,000	220,000	220,000	2,180,000
	I12-020039	Georgetown Bypass and US 25 Area	25,000	50,000	75,000	100,000	1,583	1,593	1,603	1,613	1,623	1,633	1,644	150,000	411,290
	I12-020037	KRS1 Chemical Storage and Feed Improvements	100,000	150,000	125,000	50,000	-	-	50,000	100,000	150,000	300,000	350,000	300,000	1,675,000
	I12-020055	New Circle Rd Main Relocation Phase 2	-	-	-	-	-	-	-	-	-	-	-	-	-
	I12-020021	Power Reliability at Remote Sites	30,000	50,000	50,000	50,000	50,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	930,000
	I12-020050	Paving Field Ops and Front Entrance	-	-	-	-	-	-	-	25,000	200,000	125,000	-	-	350,000
		Subtotal:	**$451,100**	**$595,000**	**$640,000**	**$398,015**	**$201,583**	**$301,593**	**$351,603**	**$426,613**	**$671,623**	**$746,633**	**$671,644**	**$770,000**	**$6,225,405**
		TOTAL WATER SCEP:	**$2,041,881**	**$1,886,312**	**$1,683,216**	**$1,116,720**	**$679,523**	**$1,032,732**	**$1,317,016**	**$1,729,166**	**$2,265,430**	**$2,606,189**	**$2,669,007**	**$2,437,021**	**$21,464,212**

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 14

Description of Filing Requirement:

Statement of Attestation signed by Kentucky-American Water Company's Chief Officer (Nick O. Rowe) in charge of Kentucky Operations.

Response:

Please see attached.

For electronic version, see KAW_APP_EX14_012916.pdf.

PUBLIC SERVICE COMMISSION

KENTUCKY-AMERICAN WATER COMPANY

CASE NO. 2015-00418

Comes Nick O. Rowe, President of Kentucky-American Water Company, and as required by 807 KAR 5:001, Section 16(7)(e), does hereby attest as follows:

1. That the forecast utilized by Kentucky-American Water Company in Case No. 2015-00418 is, in my opinion, reasonable, reliable, made in good faith and all basic assumptions used in the forecast have been identified and justified;
2. That the forecast utilized by Kentucky-American Water Company in Case No. 2015-00418 contains the same assumptions and methodologies as in the forecast prepared for use by management, except for the differences that have been identified and explained in the filing requirements and schedules thereto; and
3. That productivity and efficiency gains are included in the forecast.

Nick O. Rowe

Date: 1/14/2016

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of January, 2016.

Peggy A. Stone (SEAL)
Notary Public

My Commission Expires:
10/3/2016

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 15

Description of Filing Requirement:

Information regarding major construction projects which constitute 5% or more of the annual construction budget.

Response:

Please see attached.

For electronic version, see KAW_APP_EX15_012916.pdf.

KENTUCKY AMERICAN WATER
CASE NO. 2015-00418
MAJOR CONSTRUCTION PROJECTS
COMPRISING 5% OR MORE OF THE ANNUAL BUDGET

Investment Project Number	Project Description	Actual or Estimated Start Up Date	Estimated Completion Date	Estimated Costs Inclusive of AFUDC			Estimated Costs Exclusive of AFUDC			Costs incurred to Date * Inclusive of AFUDC	Costs Incurred to Date * Exclusive of AFUDC
				2016	2017	2018	2016	2017	2018		
I12-020032	RRS Filter Building Replacement	2/2015	5/2016	$2,324,298	$0		$1,771,566	$0		$11,282,330	$10,959,044
I12-020011	New Circle Road Main Relocation	5/2015	8/2016	$775,000	$0		$611,835	$0		$2,725,265	$2,630,944
I12-020051	KRS High Service Pumps Replacement	10/2016	9/2017	$1,000,000	$1,460,000		$1,000,000	$1,460,000		$0	$0
I12-020037	KRS1 Chemical Storage and Feed Improvements	7/2016	12/2018	$500,000	$1,700,000		$493,545	$1,666,778		$0	$0
I12-020039	Georgetown Bypass and US 25 Area	9/2016	7/2018	$250,000	$950,000		$246,575	$923,618		$0	$0
	New Ground Storage Tank	1/2018	12/2018			$2,000,000			$1,836,000	$0	$0
	US 60 Replacement Upgrade	1/2018	12/2019			$1,250,000			$1,147,500	$0	$0
	I-75 Main Extension	1/2018	12/2019			$1,100,000			$1,009,800	$0	$0

* Represents Construction costs as of 12/31/2015

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 16

Description of Filing Requirement:

Information regarding major construction projects which constitute less than 5% of the annual construction budget.

Response:

Please see attached.

For electronic version, see KAW_APP_EX16_012916.pdf.

KENTUCKY AMERICAN WATER
CASE NO. 2015-00418
MAJOR CONSTRUCTION PROJECTS
COMPRISING 5% OR LESS OF THE ANNUAL BUDGET

Investment Project Number	Project Description	Actual or Estimated Start Up Date	Estimated Completion Date	Estimated Costs Inclusive of AFUDC			Estimated Costs Exclusive of AFUDC			Costs incurred to Date * Inclusive of AFUDC	Costs Incurred to Date * Exclusive of AFUDC
				2016	2017	2018	2016	2017	2018		
Various	Aggregate of all Construction Costs incurred under 5% of the Annual Construction Budget	Various	Various	$3,786,100	$1,250,000	$2,960,000	$3,647,955	$1,212,738	$2,717,280	$492,659	$484,663

* Represents Construction costs as of 12/31/2015

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 17

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Operating Income Statements

Response:

Please see attached.

For electronic version, see KAW_APP_EX17_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
PROJECTED ANNUAL INCOME STATEMENT

	2016	2017	2018
Operating Revenues	88,131,157	87,499,670	86,881,049
Operating Expenses			
Operation & Maintenance	32,943,000	33,418,188	34,128,241
Depreciation and Amortizatoin	14,659,473	15,213,651	15,926,097
General Taxes	6,095,021	6,263,374	6,356,150
Loss (gain) on Sale of Assets	0	0	(1,000,000)
Income Taxes	9,412,106	8,749,308	8,687,451
Total Operating Expenses	63,109,600	63,644,521	64,097,938
Utility Operating Income	25,021,558	23,855,150	22,783,112
Other Income	1,238,040	940,777	963,172
Total Income	26,259,598	24,795,927	23,746,283
Income Deductions	(71,500)	(71,500)	(71,500)
Income Before Interest	26,188,098	24,724,427	23,674,783
Interest Charges	12,665,423	12,483,466	12,480,498
Net Income	13,522,675	12,240,961	11,194,285
Preferred Dividends	0	0	0
Net Income to Common	13,522,675	12,240,961	11,194,285
Common Dividends	10,762,968	9,605,615	8,395,714
Balance for Retained Earnings	2,759,707	2,635,346	2,798,571
Payout Ratio	75%	75%	75%
Return on Common Equity - 12/31	7.3%	6.3%	5.6%
Common Equity - 12/31	184,841,502	194,796,931	200,875,987

Note: Forecast does not include projection of current rate case

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 18

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Balance Sheet

Response:

Projected End-of-Year Balance Sheet

($000)	2016	2017	2018
Fixed Assets	$562,781	$571,790	$585,678
Non-Utility Property	250	250	250
Current Assets	10,891	12,243	12,386
Deferred Debits	16,952	16,614	16,277
TOTAL ASSETS	$590,873	$600,897	$614,591
Total Capital	$395,018	$404,940	$411,764
Current Liabilities	32,630	27,912	28,795
Deferred Credits	163,226	168,044	174,032
TOTAL CAPITAL & LIABILITIES	$590,873	$600,897	$614,591

For electronic version, see KAW_APP_EX18_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 19

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Cash Flow Statements

Response:

Please see attached.

For electronic version, see KAW_APP_EX19_012916.pdf.

KENTUCKY-AMERICAN

(000'S OMITTED)

SOURCE AND APPLICATION OF FUNDS

	SOURCE OF FUNDS											APPLICATION OF FUNDS			
	Increase in Capital											Reductions in Capital			
	Security Sales												Maturities & Sinking Funds		
Year	Debt	Preferred	Common	Ret Earnings	Change YE Bank Loans	Adv and CIAC	Depr and Amort	Deferred Taxes	Other	Total		Gross Constr.	Debt	Preferred	Total
2016	7,250		10,000	2,313	(18,145)	2,670	14,915	884	(3,230)	16,657		16,657	-	-	16,657
2017	5,000		2,000	7,955	(2,266)	2,310	15,478	2,644	(10,617)	22,504		22,504	-	-	22,504
2018	-		2,000	5,118	770	2,310	16,021	4,133	(2,460)	27,892		27,892	-	-	27,892

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 20

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Revenue Requirements

Response:

Please refer to Exhibit No. 17 for Revenue Requirements. Also see Exhibit 37C for the revenue requirement for the forecasted test-year ended August 2017.

For electronic version, see KAW_APP_EX20_012916.pdf for this document, KAW_APP_EX17_012916.pdf for Revenue Requirements, and KAW_APP_EX37C_012916.pdf for Exhibit 37C.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 21

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Employee Level

Response:

Year End Number of Employees:	2016	2017	2018
	139	139	139

For electronic version, see KAW_APP_EX21_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 22

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Labor Cost Changes

Response:

Total Labor Cost Changes	2016	2017	2018
O&M	$7,304,085	$7,481,694	$7,758,516
Capital	$1,714,350	$1,870,423	$1,939,629
Total	$9,018,435	$9,352,117	$9,698,145

For electronic version, see KAW_APP_EX22_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 23

Description of Filing Requirement:

Financial Forecast (for 2016–2018) Capital Structure Requirements

Response:

Please see attached.

For electronic version, see KAW_APP_EX23_012916.pdf.

Kentucky-American Water Company
FINANCING PROJECTIONS
($000)

Increments of New Capital

Calendar Year	Bank Loans	Debt	Preferred	Common
2016	(18,415)	7,250	0	10,000
2017	(2,905)	5,000	0	2,000
2018	770	0	0	2,000

Total Capitalization

As of December 31,	Bank Loans	Debt	Preferred	Common
2016	6,875	202,999	2,250	188,837
2017	3,970	207,999	2,250	196,781
2018	4,740	207,999	2,250	203,605

Capitalization Ratios

As of December 31,	Bank Loans	Debt	Preferred	Common
2016	1.71%	50.63%	0.56%	47.10%
2017	0.97%	50.61%	0.55%	47.88%
2018	1.13%	49.69%	0.54%	48.64%

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 24

Description of Filing Requirement:

Financial Forecast (For 2016-2018) Rate Base

Response:

12/31/2016	Rate Base	$ 416,361,000*
12/31/2017	Rate Base	$ 421,521,000*
12/31/2018	Rate Base	$ 427,847,000*

*Financial Forecasts do not assume the bonus depreciation election in the calculation of deferred taxes.

For electronic version, see KAW_APP_EX24_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 25

Description of Filing Requirement:

Financial Forecast (2016-2018) Water Sales (Gallons)

Response:

Water Sales (000 Gallons)	2016	2017	2018
Residential	5,679,251	5,592,938	5,508,935
Commercial	3,461,353	3,392,927	3,306,723
Industrial	619,086	619,086	619,086
Other Public Authority	1,196,002	1,196,002	1,196,002
Sale for Resale	403,500	403,500	403,500
Total	**11,359,192**	**11,204,453**	**11,034,246**

For electronic version, see KAW_APP_EX25_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 26

Description of Filing Requirement:

Financial Forecast (for 2016-2018) Customer Forecast

Response:

Customers	**2016**	**2017**	**2018**
Residential	116,791	117,974	119,141
Commercial	9,021	9,063	9,063
Industrial	26	26	26
Other Public Authority	541	541	541
Sale for Resale	15	15	15
Total	**126,394**	**127,619**	**128,786**

For electronic version, see KAW_APP_EX26_012916.pdf.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 27

Description of Filing Requirement:

Most Recent Stock or Bond Prospectus

Response:

There has been no common stock prospectus. Please see attached for copy of the executed Promissory Note for the $7.859 million of long-term debt issued on May 15, 2013. There was no prospectus since this was not a public offering.

For electronic version, see KAW_APP_EX27_012916.pdf.

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS
4.00% Maturity - October 15, 2037

$7,859,000 **May 15, 2013**

FOR VALUE RECEIVED, **Kentucky-American Water Company**, an **Kentucky** corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Road, Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of **Seven Million Eight Hundred Fifty Nine Thousand** dollars **($7,859,000)**, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Kentucky-American Water Company

By: Mark Shaeffer
Mark Shaeffer
Director of FP&A, Central Division

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 28

Description of Filing Requirement:

(1) Annual Reports to Stockholders covering the most recent two (2) years from the application filing date.
(2) A copy of Form 10-K as filed with the Securities and Exchange Commission for the most recent two (2) years, any Form 8-K issued during the past two (2) years, and any Form 10-Q issued during the past six (6) quarters.
(3) The quarterly reports to stockholders for the most recent five (5) quarters.

Response:

Please see attached.

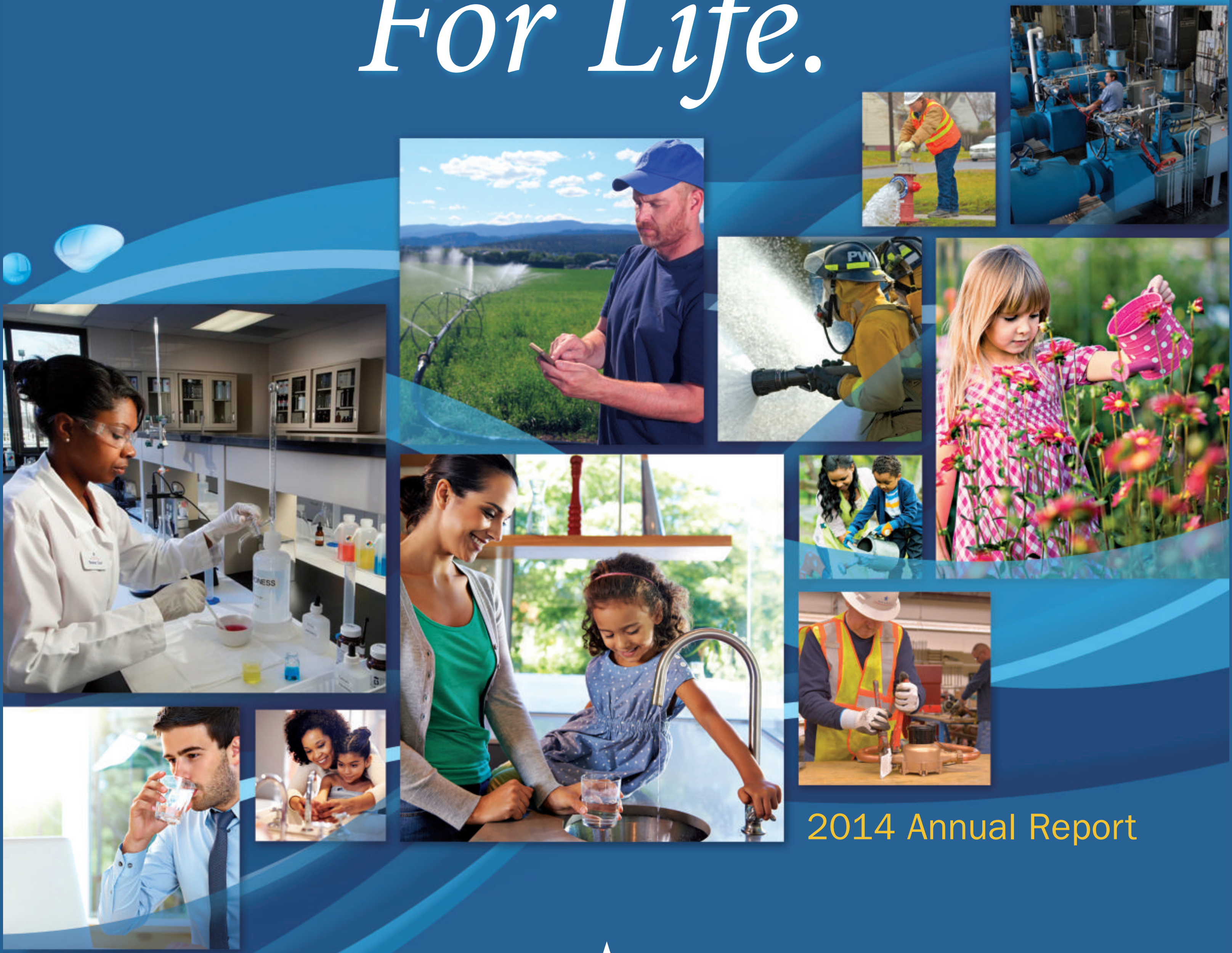
For electronic version, see KAW_APP_EX28_012916.pdf.

AMERICAN WATER

2014 Annual Report

SAFE. CLEAN. AFFORDABLE. RELIABLE.

For Life.



2014 Annual Report

AMERICAN WATER

Dear Fellow Stockholder,

Our vision is a simple but powerful message that describes “why” we do what we do every day. Water is necessary for our customers’ health and how they live their lives. “For Life” also means we are there day after day, providing this essential and critical service for a lifetime. American Water works hard in many ways to deliver clean water for life that is also safe, reliable and affordable, because our customers, our employees and those who invest in us deserve nothing less.

American Water demonstrates our commitment in many ways. We start with commitment to our customers, who are at the center of everything we do. Our actions and operations must be filtered through the needs of our customers.

In 2014, our tremendously talented and dedicated team of 6,400 water professionals dealt with many unique challenges: the winter’s polar vortex and associated freeze/thaw conditions which resulted in significantly higher main breaks; dealing with the Freedom Industries chemical spill in West Virginia, with additional employees lending aid from our other states; and the successful results in four different election day referenda in California, New Jersey, Missouri and Indiana. We are honored and proud to be able to work with these incredible people every day.

is through the leadership of these same employees in research and development efforts and our Innovation Development Process. We seek to leverage opportunities in the national water-energy nexus discussion, smart water grid development, and water supply solutions. Our success in developing and deploying technology to improve services, increase efficiencies, and reduce the demand for energy and chemicals not only benefit our customers and investors but also our communities and industry.

We work closely with the U.S. Environmental Protection Agency and state authorities to ensure that the water we provide customers meets federal and state safety standards, and our researchers help the EPA and others develop and evaluate standards and regulations. When it comes to complying with strict federal regulations for delivering clean, quality drinking water, we’ve consistently scored among the highest of all water providers, public or private.

in our plants, pumps and pipes is a critical part of maintaining strong service performance and compliance excellence. We invested approximately $1 billion in 2014 to ensure the quality of our water services. We plan to invest $6 billion in 2015 through 2019.

we’re focused on balancing the need to improve service with affordability for them. We do this through our operations and maintenance (O&M) efficiency efforts. Through our disciplined strategy to manage our costs and employ technologies that provide greater efficiencies, our customers on average will only experience increases around the current inflation rate.

also comes from constructive regulatory relationships and regulations. American Water works collaboratively with the public service commissions and consumer advocates to address the many challenges water infrastructure faces. Through those collaborations we have been able to use mechanisms that allow increased investment while mitigating customer bill impacts.

In the past few years, we have delivered solid earnings per share growth, more than doubling our equity share price and market capitalization. We have strengthened our balance sheet and grown both our regulated and market-based businesses.

the new customers we added in 2014 with already-announced pending acquisitions, we have welcomed approximately 30,000 new customers for a second consecutive year. In addition we were awarded our 10th and 11th contract with the U.S Department of Defense in 2014. Our Homeowner Services group expanded into eight new states and received notice of intent to be awarded an exclusive utility services protection agreement with the Orlando Utilities Commission.

happens not only because we capitalize on our core competencies and strengths, but because we benefit from the very strong brand reputation and “local” business model of American Water. Our employees live and work in the communities we are privileged to serve. This matters to those who look to partner with our company.

Through a continued focus on our vision of Clean Water for Life, we are confident in our ability to achieve long-term growth while providing safe, reliable and affordable service to our customers. We are excited about the future and hope that you are too.

Sincerely,

G. MacKenzie
George MacKenzie
Chairman of the Board

Susan Story
Susan Story
President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 "small reporting company" in Rule 12(b)-2 of the Exchange Act.:

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Small reporting company ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, $0.01 par value—$8,858,523,983 as of June 30, 2014.

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

Common Stock, $0.01 par value per share—179,787,780 shares, as of February 19, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Company's Proxy Statement for the Company's 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in other sections of this Annual Report on Form 10-K ("Form 10-K"), or incorporated certain statements by reference into this Form 10-K, 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," "forecast," "outlook," "future," "potential," "continue," "may," "can," "should" and "could" and 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 of any outcomes, financial results or levels of performance and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and uncertainties, and new risks and uncertainties of which we are not currently aware or which we do not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of our expectations or assumptions prove incorrect, then our results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under the caption "Risk Factors" and the following 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 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 recent events 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 our computer systems;
- 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 acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of our operations;
- changes in general economic, business and financial market conditions;
- access to sufficient capital on satisfactory terms;
- 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;
- our ability to utilize our U.S. and state net operating loss carryforwards;
- migration of customers into or out of our service territories and the use by municipalities to condemn our systems through eminent domain;
- difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;
- the incurrence of impairment charges;
- labor actions, including work stoppages;
- ability to retain and attract qualified employees; and
- civil disturbance, or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make, speak only as of the date of this Form 10-K. 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.

PART I

ITEM 1. BUSINESS

Our Company

Founded in 1886, American Water Works Company, Inc., (the "Company," "American Water" or "AWW") is a Delaware holding company. American Water is the most geographically diversified, as well as the largest publicly-traded, United States water and wastewater utility company, as measured by both operating revenues and population served. As a holding company, we conduct substantially all of our business operations through our subsidiaries. Our approximately 6,400 employees provide an estimated 15 million people with drinking water, wastewater and/or other water-related services in 47 states and one Canadian province.

Operating Segments

We report our results of operations in two operating segments: the Regulated Businesses and the Market-Based Operations. Additional information with respect to our operating segment results is included in the section entitled "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 18 of the Consolidated Financial Statements.

Regulated Businesses

Our primary business involves the ownership of subsidiaries that provide water and wastewater utility services to residential, commercial, industrial and other customers, including sale for resale and public authority customers. We report the results of this business in our Regulated Businesses segment. Our subsidiaries that provide these services are generally subject to economic regulation by certain state commissions or other entities engaged in economic regulation, hereafter referred to as Public Utility Commissions, or "PUCs," of the states in which we operate. The federal and state governments also regulate environmental, health and safety, and water quality matters.

Our Regulated Businesses segment operating revenues were $2,674.3 million for 2014, $2,539.9 for 2013, $2,564.4 million for 2012, accounting for 88.8%, 90.1% and 89.9%, respectively, of total operating revenues for the same periods.

The following table sets forth our Regulated Businesses operating revenues, number of customers and an estimate of population served as of December 31, 2014:

	Operating Revenues (In millions)	% of Total	Number of Customers	% of Total	Estimated Population Served (In millions)	% of Total
New Jersey	$ 652.3	24.5%	648,066	20.2%	2.7	22.7%
Pennsylvania	605.4	22.6%	666,415	20.7%	2.2	18.5%
Missouri	270.2	10.1%	464,498	14.4%	1.5	12.7%
Illinois (a)	262.3	9.8%	312,017	9.7%	1.3	10.9%
California	209.8	7.8%	174,198	5.4%	0.6	5.0%
Indiana	200.6	7.5%	293,666	9.1%	1.2	10.1%
West Virginia (b)	127.0	4.7%	170,371	5.3%	0.6	5.0%
Subtotal (Top Seven States)	2,327.6	87.0%	2,729,231	84.8%	10.1	84.9%
Other (c)	346.7	13.0%	489,961	15.2%	1.8	15.1%
Total Regulated Businesses	$2,674.3	100.0%	3,219,192	100.0%	11.9	100.0%

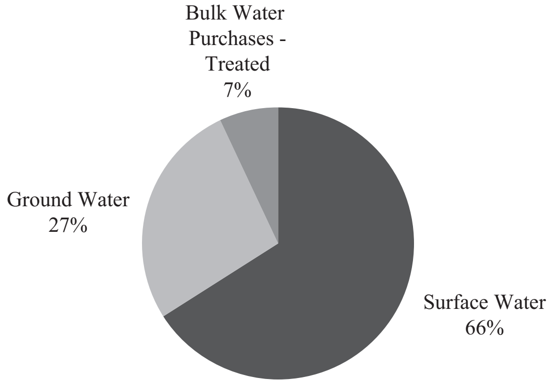
(a) Includes Illinois-American Water Company, which we refer to as ILAWC and American Lake Water Company, also a regulated subsidiary in Illinois.

(b) Includes West Virginia-American Water Company, which we refer to as WVAWC, and its subsidiary Bluefield Valley Water Works Company.
(c) Includes data from our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia.

Overview of Networks, Facilities and Water Supply

Our Regulated Businesses operate in approximately 1,600 communities in 16 states in the United States. Our primary operating assets include 89 dams and 81 surface water treatment plants along with approximately 500 groundwater treatment plants, 1,000 groundwater wells, 100 wastewater treatment facilities, 1,200 treated water storage facilities, 1,300 pumping stations, and 48,000 miles of mains and collection pipes. Our regulated utilities own substantially all of the assets used by our Regulated Businesses. We generally own the land and physical assets used to store, extract and treat source water. Typically, we do not own the water itself, which is held in public trust and is allocated to us through contracts and allocation rights granted by federal and state agencies or through the ownership of water rights pursuant to local law. Maintaining the reliability of our networks is a key activity of our Regulated Businesses. We have ongoing infrastructure renewal programs in all states in which our Regulated Businesses operate. These programs consist of both rehabilitation of existing mains and other equipment and replacement of mains and other equipment that are damaged or have reached, or are near, the end of their useful service lives.

As noted, our Regulated Businesses are dependent upon a defined source of water supply and obtain their water supply from surface water sources such as reservoirs, lakes, rivers and streams. In addition, we also obtain water from ground water sources, such as wells, and purchase water from other water suppliers. The following chart sets forth the sources of water supply for our Regulated Businesses for 2014 by volume:



Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, governmental restrictions, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. We employ a variety of measures to ensure that we have adequate sources of water supply, both in the short-term and over the long-term. The geographic diversity of our service areas tends to mitigate some of the economic effect associated with weather extremes we might encounter in any particular service territory. In any given summer, some areas may have source issues and experience drier than average weather while other areas we serve may experience wetter than average weather.

In our long-term planning, we evaluate quality, quantity, growth needs and alternate sources of water supply as well as transmission and distribution capacity. Sources of supply are seasonal in nature and weather conditions can have a pronounced effect on supply. In order to ensure that we have adequate sources of water supply, we use planning processes and maintain contingency plans to minimize the potential impact on service through a wide range of weather fluctuations. In connection with supply planning for most surface or groundwater sources, we employ models to determine safe yields under different rainfall and drought conditions. Surface and groundwater levels are routinely monitored so that supply capacity deficits may, to the extent possible, be predicted and mitigated through demand management and additional supply development.

Additionally, in California as part of the Urban Water Management Plan of 1983, water suppliers serving greater than 3,000 acre feet per year or 3,000 connections are required to submit an Urban Water Management Plan to the Department of Water Resources every five years. These plans assess water supply reliability over a 20-year planning period under normal, dry and multi-year dry periods to ensure that water suppliers have adequate water supply for current and future demands. In 2009, additional conservation elements were added to the plan that required utilities to show how they could meet a 20% demand reduction by 2020.

The percentage of finished water supply by source type for our top seven states by Regulated Businesses revenues for 2014 is as follows:

	Ground water	Surface water	Purchased Water
New Jersey	24%	71%	5%
Pennsylvania	7%	92%	1%
Missouri (a)	19%	80%	1%
Illinois	35%	54%	11%
California (b)	66%	—	34%
Indiana	56%	43%	1%
West Virginia	—	99%	1%

(a) There are limitations in our Joplin, Missouri service area where the projected source of water supply capacity is unable to meet projected peak demands under certain drought conditions. To manage this issue on the demand side, the water use of a large industrial customer can be restricted under an interruptible tariff. Additional wells have been and will be developed to address short-term supply deficiencies. Missouri-American Water Company is working with a consortium of agencies to determine a long-term supply solution for the Joplin, Missouri region.

(b) In Monterey, California, in order to augment our sources of water supply, we have implemented conservation rates and other programs to address demand. These include utilizing aquifer storage and recovery facilities to store winter water for summer use. Additionally, in other areas we are making arrangements to extend or expand our purchase of water from neighboring water providers.

The level of treatment we apply to the water varies significantly depending upon the quality of the water source and customer stipulations. Surface water sources, such as rivers, typically require significant treatment, while some groundwater sources, such as aquifers, require chemical treatment only. In addition, a small amount of treated water is purchased from neighboring water purveyors. Treated water is transported through our transmission and distribution network, which includes underground pipes, above ground storage facilities and numerous pumping facilities with the ultimate distribution of the treated water to the customers' premises.

We have installed production meters to measure the water that we deliver to our distribution network. We also employ a variety of methods of customer meter reading to monitor consumption; ranging from meters with mechanical registers where consumption is manually recorded by meter readers, to meters with electronic registers capable of transmitting consumption data to proximity devices (touch read) or via radio frequency to mobile or fixed network data collectors. The majority of new meters are able to support future advances in electronic meter reading.

Wastewater services involve the collection of wastewater from customers' premises through sewer lines. The wastewater is then transported through a sewer network to a treatment facility, where it is treated to meet required effluent standards. The treated wastewater is finally returned to the environment as effluent, and the solid waste by-product of the treatment process is disposed of in accordance with applicable standards and regulations.

Economic Regulation and Rate Making Process

The operations of our Regulated Businesses are generally subject to extensive economic regulation by their respective PUCs. The term "economic regulation" is intended to indicate that these state PUCs regulate the economic aspects of service to the public but do not generally establish water quality standards, which are typically set by the federal Environmental Protection Agency ("EPA") and/or state environmental authorities. State PUCs have broad authority to regulate many of the economic and service aspects of the utilities. For example, state PUCs often issue certificates of public convenience and necessity (or similar authorizations) that may be required for a company to provide service in specific areas. They also approve the rates and conditions under which service is provided and have extensive authority to establish rules and regulations under which the utilities operate. Specific authority might differ from state to state, but in most states PUCs approve rates, accounting treatments, long-term financing programs and cost of capital, significant capital expenditures and plant additions, transactions and relationships between the regulated subsidiary and affiliated entities, reorganizations and mergers and acquisitions. In many instances, regulatory approvals are required to effect the transaction. Regulatory policies not only vary from state to state, but can change over time as well. These policies will affect the timing as well as the extent of recovery of expenses and the realized return on invested capital. Our results of operations are significantly affected by rates authorized by the PUCs in the states in which we operate, and we are subject to risks and uncertainties associated with rate case delays or inadequate rate recovery.

Economic regulation of utilities involves many competing, and occasionally conflicting, public interests and policy goals. The primary responsibility of PUCs is to promote the overall public interest by balancing the interests of customers and utility investors. Although the specific approach to economic regulation varies, certain general principles are consistent across the states in which our regulated subsidiaries operate. Based on certain legal and regulatory principles, economic regulation is generally intended to provide a utility the right to serve specific geographic areas. In return, the utility undertakes the obligation to provide safe and adequate service to all customers within its service area and is authorized an annual revenue requirement intended to provide recovery of prudent operation and maintenance costs, depreciation and taxes and an opportunity to earn a fair return on capital investment necessary to provide service to customers.

Our operating revenue is typically determined by reference to a volumetric charge based on consumption and a base fee component set by a tariff approved by the PUC. The process to obtain approval for a change in rates generally occurs by way of a "rate case" filed by the utility with the PUC on a periodic basis. The timing of rate case filings may be determined by either periodic requirements in the regulatory jurisdiction or by the utility's need to increase its revenue requirement to recover capital investment costs, changes in operating revenues, operating costs or other market conditions. A PUC may also initiate the filing of a rate case to conduct an investigation and may impose other conditions on the content and timing of filings under certain circumstances.

State PUCs differ with regard to the types of expenses and investments that may be recovered in rates as well as with regard to the transparency of their rate-making processes and how they reach their final rate determinations. However, in evaluating a rate case, state PUCs typically focus on a number of areas, including, the cost and prudence of investment in facilities; operating and maintenance expenses and taxes; the appropriate cost of capital and equity return; revenues or consumption at current and expected levels; allocation of the revenue requirements among customer classes; service quality and issues raised by customers.

Failure of the PUCs to recognize reasonable and prudent operating and capital costs can result in the inability of the utility to meet its debt service, provide adequate service to its customers and earn its authorized return, which can impact the operations and earnings of our Regulated Businesses. Rate cases and other rate-related proceedings can take several months to over a year to complete. Therefore, there may be delays, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating cost increase and when those costs are reflected in rates. For instance, an unexpected increase in chemical costs or new capital investment that is not reflected in the most recently completed rate case will generally not begin to be recovered by the regulated subsidiary until the effective date of the subsequent rate case. Our rate case management program is guided by the goals of obtaining efficient recovery of costs of capital, recognition of declining consumption and appropriate recovery of utility operating and maintenance costs, including costs incurred for compliance with environmental regulations. The management team at each of our Regulated Businesses anticipates the time required for the regulatory process and files rate cases with the goal of obtaining rates that reflect as closely as possible the cost of providing service at the time the rates become effective and a reasonable opportunity to earn the authorized return on invested capital, or rate base.

Our regulated subsidiaries work with legislatures and PUCs to mitigate the adverse impact of regulatory lag through the adoption of positive regulatory policies. These policies include, for example, infrastructure replacement surcharges that allow rates to change outside the context of a general rate proceeding to reflect, on a more timely basis, investments to replace infrastructure necessary to sustain high quality, reliable service. Currently, Pennsylvania, Illinois, Missouri, Indiana, New York, New Jersey and Tennessee allow the use of infrastructure surcharges. Forward-looking test year mechanisms allow us to earn, on a more current basis, our current or projected usage and costs and a rate of return on our current or projected invested capital. Some states have permitted the use of a fully forecasted test year instead of historical data to set rates. Those states are: Illinois, Kentucky, New York, Tennessee, California, Pennsylvania, Indiana, Hawaii and Virginia. In all states in which we operate on a regulated basis, PUCs have allowed utilities to update historical data for certain “known and measurable” changes that occur for some limited period of time subsequent to the historical test year. This allows utilities to take into account more current costs or capital investments in the rate-setting process. The extent to which historical data can be updated will generally vary from state to state.

Another mechanism to address issues of regulatory lag is the ability, in certain circumstances, to recover the full return on utility plant costs during the construction period, instead of capitalizing an allowance for funds used during construction. Examples of states that have allowed such recovery include Pennsylvania, Kentucky, Virginia, Illinois and California. In addition, some states, such as Indiana, allow the utility to seek pre-approval of certain capital projects and associated costs. In this pre-approval process, the PUC assesses the prudency of such projects.

Surcharge mechanisms are also available in a number of states to reflect, outside of a general rate proceeding, changes in major operating expenses which may be beyond the utility’s control. For example, New Jersey, California, Virginia, Illinois and Tennessee have allowed surcharges for purchased water costs. California has allowed surcharges for power and certain other costs, and New York has allowed annual reconciliations for expenses such as power, fuel, chemicals and property taxes. Tennessee has allowed surcharges for power, chemical and Tennessee River Authority inspections fees.

Certain states have approved consolidated rates or single-tariff pricing policies. Consolidated rates or single-tariff pricing is the use of a unified rate structure for multiple water systems that are owned and operated by a single utility, but may or may not be contiguous or physically interconnected. The single-tariff pricing structure may be used fully or partially in a state, based on costs that are determined on a state-wide or intra-state regional basis, thereby moderating the impact of periodic fluctuations in local costs while lowering administrative costs for our customers. For states that do not employ single-tariffs, we may have multiple general rate cases filed at any given point in time. Examples of states that have adopted a full or partial single-tariff pricing policy include: Pennsylvania, New Jersey, Missouri, West Virginia, Kentucky, Indiana, Illinois and Iowa. Therefore, of our seven largest states, six have some form of single-tariff pricing. Pennsylvania also permits a blending of water and wastewater rate structures, which results in single-tariff pricing among water and wastewater systems.

In some states, the PUC has implemented mechanisms to enhance utility revenue stability in light of conservation initiatives, decreasing per capita consumption or other factors. Sometimes referred to as “decoupling,” these mechanisms, to some extent, separate recoverable revenues from volumes of water sold. For example, the state of California has decoupled revenues from water sold to help achieve the state initiative to reduce water usage by 20% by 2020. This progressive regulation enables utilities to encourage water efficiency, as revenues are not tied to sales. Similarly, New York has implemented a surcharge or credit based on the difference between actual net revenues and the revenues allowed in the most recent rate order.

California also has a multi-year cost of capital proceeding outside of the general rate case process. This proceeding authorizes the utility's capital structure and authorized rates of return, as well as provides an automatic adjustment mechanism that triggers an adjustment to the authorized cost of capital if the Moody's utility bond index changes beyond certain thresholds on an annual basis.

We pursue positive regulatory policies as part of our rate and revenue management program to enhance our ability to provide high quality, sustainable, cost effective service to customers, to facilitate efficient recovery of our costs and investments, and to ensure positive short-term liquidity and long-term profitability for a financially stable company which benefits our customers, employees and shareholders. The ability to seek regulatory treatment as described above does not guarantee that the state PUCs will accept our proposal in the context of a particular rate case, and these policies will reduce, but not eliminate, regulatory lag associated with traditional rate making processes. However, the Company strives to use these and other regulatory policies to address issues of regulatory lag wherever appropriate. It is also our strategy to expand their use in areas where they may not currently apply.

Customers

We have a large and geographically diverse customer base in our Regulated Businesses. An active customer is defined as a party with an active agreement to receive a specific service from a connection to our water or wastewater system as of the last business day of each monthly reporting period. Also, as in the case of apartment complexes, businesses and many homes, multiple individuals may be served by a single contract.

Residential customers make up the majority of our customer base in all of the states in which we operate. In 2014, residential customers accounted for 91.0% of the customers, 59.3% of the operating revenues and approximately 50.4% of the billed water sales of our Regulated Businesses. We also serve commercial customers, such as shops and businesses; industrial customers, such as large-scale manufacturing and production operations; and public authorities, such as government buildings and other public sector facilities, including schools. We also supply water to public fire hydrants for firefighting purposes, to private fire customers for use in fire suppression systems in office buildings and other facilities, as well as providing bulk water supplies to other water utilities for distribution to their own customers.

The vast majority of our regulated water customers are metered, which allows us to measure and bill for our customers' water consumption, typically on a monthly basis. Our wastewater customers are billed either on a fixed charge basis or based on their water consumption.

In fiscal year 2014, no single Regulated Businesses customer accounted for more than 10% of our consolidated annual operating revenues.

The following table sets forth the number of water and wastewater customers (by customer class) for our Regulated Businesses as of December 31, 2014, 2013, and 2012:

	December 31,					
	2014		2013		2012	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Residential	2,813,715	117,602	2,813,601	117,584	2,783,354	95,576
Commercial	218,314	6,221	219,510	6,287	218,988	5,477
Industrial	3,793	17	3,822	16	3,894	12
Public & other	59,249	281	58,420	259	50,702	223
Total	3,095,071	124,121	3,095,353	124,146	3,056,938	101,288

Changes in customer growth in our Regulated Businesses is driven by (i) organic population growth or contraction in our authorized service areas; (ii) adding new customers to our regulated customer base by acquiring water and/or wastewater utility systems; and (iii) the sale of water to other community water systems. Generally, we add customers through tuck-ins of small and medium water and/or wastewater systems, in close geographic proximity to areas where we operate our Regulated Businesses, which we refer to as "tuck-ins." We will continue to acquire water and wastewater utilities through tuck-ins. The proximity of tuck-in opportunities to our regulated footprint allows us to integrate and manage the acquired systems and operations primarily using our existing management and to achieve efficiencies. Historically, pursuing tuck-ins has been a fundamental part of our growth strategy. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and, if appropriate, certain markets in the United States where we do not operate our Regulated Businesses. We will also selectively seek larger acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing and new markets. Before entering new regulated markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate rate of return on our investment while maintaining our high standards for quality, reliability and compliance with environmental, health and safety and water quality standards.

Seasonality

Customer usage of water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for lawn irrigation and other outdoor uses. Summer weather that is cooler and/or wetter than average generally serves to suppress customer water demand and can reduce water operating revenues and operating income. Summer weather that is hotter and drier than average generally increases operating revenues and operating income. However, when weather conditions are extremely dry, and even if our water supplies are sufficient to serve our customers, our systems may be affected by drought-related warnings and/or water usage restrictions imposed by governmental agencies, thereby reducing customer usage and operating revenues. These restrictions may be imposed at a regional or state level and may affect our service areas, regardless of our readiness to meet unrestricted customer demands. Other factors affecting our customers' usage of water include conservation initiatives, such as the use of more efficient household fixtures and appliances among residential consumers; declining household sizes in the United States; and changes in the economy and credit markets which could have significant impacts on our industrial and commercial customers' operational and financial performance.

Competition

In our Regulated Businesses, we generally do not face direct competition in providing services in our existing markets because (i) we operate within those markets pursuant to certificates of public convenience and necessity (or similar authorizations) issued by state PUCs; and (ii) the high cost of constructing a new water and wastewater system in an existing market creates a barrier to market entry. Our Regulated Businesses do face competition from governmental agencies, other investor-owned utilities, large industrial customers with the ability to provide their own water supply/treatment process and strategic buyers that are entering new markets and/or making strategic acquisitions. Our largest investor-owned competitors, when pursuing acquisitions, based on a comparison of operating revenues and population served, are Aqua America Inc., United Water (owned by Suez Environnement), American States Water Co. and California Water Services Group. From time to time, we also face competition from infrastructure funds, multi-utility companies and others, such as Algonquen Power, Colix and others.

Supplies

Our water and wastewater operations require an uninterrupted supply of chemicals, energy and fuel, as well as maintenance material and other critical inputs. Many of these inputs are subject to short-term price volatility. Short-term price volatility is partially mitigated through existing procurement contracts, current supplier continuity plans, the regulatory rate setting process and rate mechanisms.

Because of our geographic diversity, we maintain relationships with many chemical, equipment and service suppliers in the marketplace, and we do not rely on any single entity for a significant amount of our supplies. We also employ a strategic sourcing process intended to ensure reliability in supply and long-term cost effectiveness. As a result of this process and our strong relationships with suppliers, we have historically been able to mitigate interruptions in the delivery of the products and services that are critical to our operations.

We typically have a combination of standby power generation or dual electric service feeds at key facilities, multiple water production facilities, emergency interconnections with adjacent water systems and finished water storage that keep our operations running in the event of a temporary loss of our primary energy supplies.

Condemnation

The potential exists that all or portions of our regulated subsidiaries' utility assets could be acquired by municipalities or other local government entities through one or more of the following methods:

- eminent domain (also known as condemnation);
- the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity was granted; and
- the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its certificate.

For example, condemnation threats have been made over the last several years with respect to the following systems:

- Mooresville, Indiana: The Town of Mooresville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooresville operations in August 2012. The Town originally offered $6.5 million, while Indiana-American's appraisal valued the system at $24.1 million. Following a June/July 2014 trial, the jury determined the Mooresville operations had a value of $20.3 million. As a result of the determination, the Town decided not to pursue the purchase.
- Monterey, California: A citizens group in Monterey, California (approximately 40,000 customer connections) submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of the assets of the California American Water's Monterey service district. In the election, the voters rejected the proposed feasibility study; although it is possible that similar initiatives may be pursued in the future.

The acquisition consideration related to such a transaction initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular franchise or charter. We believe our Regulated Businesses would be entitled to fair market value for any assets required to be sold, and we are of the opinion that fair market value would be in excess of the book value for such assets. For additional information, including with respect to ongoing condemnation efforts, see "Item 1A—Risk Factors—The assets of our Regulated Businesses are subject to condemnation through eminent domain."

We actively monitor condemnation activities that may affect us as soon as we become aware of them. We do not believe that condemnation poses a material threat to our ability to operate our Regulated Businesses.

Market-Based Operations

In addition to our Regulated Businesses, we also provide services to military bases, municipalities, industrial, commercial and residential customers that are not subject to economic regulation by state PUCs and do not require substantial infrastructure investment through our Market-Based Operations. For 2014, operating revenues for our Market-Based Operations was $354.7 million, or 11.8% of total operating revenues. In 2014, no single customer accounted for more than 10% of our consolidated annual operating revenues.

Our Market-Based Operations include three lines of business:

- Military Services Group, which enters into 50-year contracts with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases;
- Homeowner Services Group, which provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes, clogged or blocked sewer pipes inside and outside their accommodations and interior electric line repairs; and
- Contract Operations Group, which enters into contracts to operate and maintain water and wastewater facilities and other related services mainly for municipalities and the food and beverage industry.

In November 2014, we disposed of our Class B Biosolids line of business by selling our subsidiary Terratec Environmental Ltd (“Terratec”), which provided biosolids management, transport and disposal services to municipal and industrial customers in Ontario, Canada. In accordance with generally accepted accounting principles in the United States (“GAAP”), the results of Terratec are presented as discontinued operations and, as such, have been excluded from continuing operations and operating segment results for all periods presented. Unless otherwise noted, all information in this Form 10-K is presented on the basis of continuing operations. See Note 3 of the Consolidated Financial Statements for additional details on our discontinued operations.

Military Services Group

Our Military Services Group has eleven 50-year contracts with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases. All of our contracts with the U.S. government may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or non-performance by the subsidiary performing the contract. In either event, pursuant to the standard terms of the U.S. government contract termination provisions, we would be entitled to recover allowable costs that we may have incurred under the contract, plus the contract profit margin on incurred costs. The contract price for nine of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Two contracts are subject to annual price adjustments under a mechanism similar to price redetermination, called “Economic Price Adjustment.” During the contract term, we may make limited short-term capital investments under our contracts with the United States military.

Homeowner Services Group

Our Homeowner Services Group, through our Service Line Protection Program, provides services to domestic homeowners and smaller commercial establishments to protect against the cost of interior and external water and sewer line repairs and interior electric line repairs. Our LineSaver™ program involves partnering with municipalities to offer our protection programs to homeowners serviced by the municipalities. As of December 31, 2014, our Homeowner Services Group has approximately 1.4 million customer contracts in 43 states and the District of Columbia.

Contract Operations Group

Our Contract Operations Group enters into public/private partnerships, including O&M, Design, Build and Operate (“DBO”) and Design, Build, Finance, Operate and Maintain (“DBFOM”) contracts for the provision of services to water and wastewater facilities for municipalities, the food and beverage industry and other customers. We are party to approximately 70 contracts, varying in size and scope, across the United States and

Canada, with contracts ranging in terms from one to 30 years. Historically, we have made little long-term capital investment under these contracts with municipalities and other customers; instead we perform our services for a fee. Occasionally we provide our customers with financing for capital projects as part of a long-term operations and maintenance partnership.

Competition

We face competition in our Market-Based Operations from a number of service providers, including Veolia Environnement, American States Water, OMI and Southwest Water, particularly in the area of O&M contracting. Securing new O&M contracts is highly competitive, as these contracts are awarded based on a combination of customer relationships, service levels, competitive pricing, references and technical expertise. We also face competition in maintaining existing O&M contracts to which we are a party, as the municipal and industrial fixed term contracts frequently come up for renegotiation and are subject to an open bidding process.

Our Homeowner Services Group faces competition outside our existing footprint primarily from HomeServe USA and Utility Service Partners, Inc.

Industry Matters

Overview

The United States water and wastewater industry has two main sectors: (i) utility ownership, which involves supplying water and wastewater services to consumers; and (ii) general services, which involves providing water and wastewater related services to water and wastewater utilities and other customers on a contract basis.

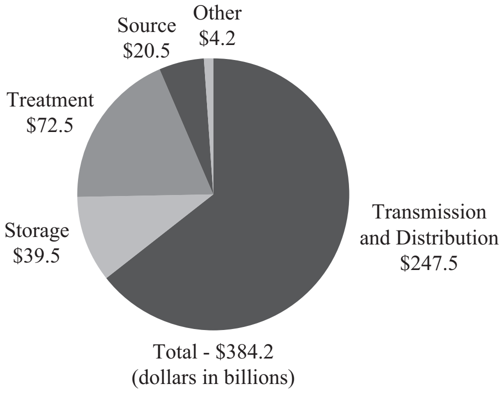
The utility sector includes investor-owned as well as municipal systems that are owned and operated by local governments or governmental subdivisions. The EPA estimates that government-owned systems account for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems. Investor-owned water and wastewater systems, including a small number of private companies and developers, account for the remainder of the United States water and wastewater systems. Growth of service providers in the investor-owned regulated utility sector is achieved through organic growth within a franchise area, the provision of bulk water service to other community water systems and/or acquisitions of entire systems, including small and medium water and wastewater systems that are in close geographic proximity to already established regulated operations, as well as acquisitions in new service areas.

According to the EPA, the utility segment of the United States water and wastewater industry is highly fragmented, with approximately 52,000 community water systems and approximately 15,000 community wastewater facilities. Over half of the community water systems are very small, serving a population of 500 or less.

This large number of relatively small, fragmented water systems as well as fragmented wastewater facilities may result in inefficiencies in the marketplace, since such utilities may not have the operating expertise, financial and technological capability or economies of scale to provide services or raise capital as efficiently as larger utilities. Larger utilities that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to both water and wastewater systems. In addition, water and wastewater utilities with large customer bases, spread across broad geographic regions, may more easily absorb the impact of significant variations in precipitation and temperatures, such as droughts, excessive rain and cool temperatures in specific areas. Larger utilities generally are able to spread support services over a larger customer base, thereby reducing the costs to serve each customer. Since many administrative and support activities can be efficiently centralized to gain economies of scale, companies that participate in industry consolidation have the potential to improve operating efficiencies, lower costs per unit and improve service at the same time.

The utility sector is characterized by high barriers to entry, given the capital intensive nature of the industry. The aging water and wastewater infrastructure in the United States is in constant need of modernization and replacement. Increased regulations to improve water quality and the management of water and wastewater residuals' discharges, which began with passage of the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, have been among the primary drivers of the need for modernization. In 2007, the EPA estimated that approximately $390 billion of capital spending would be necessary over the then next 20 years to replace aging infrastructure and ensure quality wastewater systems across the United States. The EPA estimated that the nation's drinking water utilities need $384 billion in infrastructure investments for thousands of miles of pipe as well as thousands of treatment plants storage tanks, and other key assets between 2011 and 2030 to ensure the public health, security and economic well-being of our cities, towns and communities. Additionally, in 2013 the American Society of Civil Engineers' ("ASCE"), *Report Card for America's Infrastructure,* gave the water and wastewater infrastructure a grade of "D" due to the fact that much of the infrastructure is nearing the end of its useful life. The report concluded that there will be an investment gap between now and 2020 of $84 billion for drinking water and wastewater infrastructure.

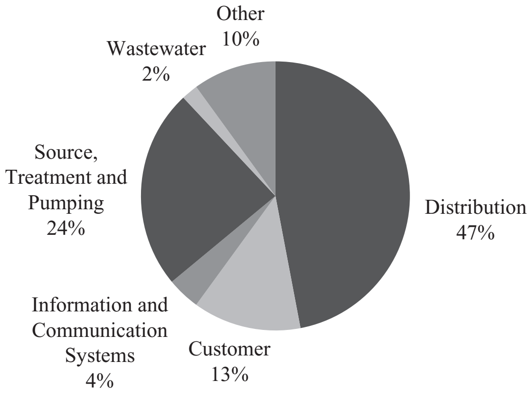
The following chart sets forth estimated capital expenditure needs from 2011 through 2030 for United States water systems:



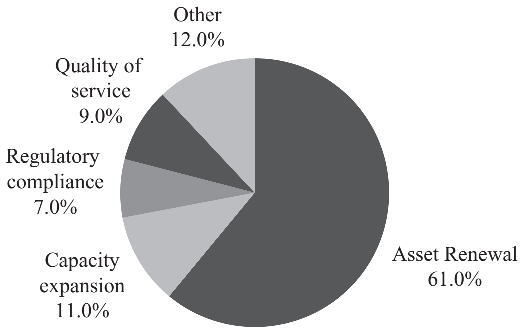
Note: Numbers may not total due to rounding
Source: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment

For 2015 to 2019, we estimate that Company-funded capital investment will amount to approximately $6.0 billion. Of the $6.0 billion, $5.2 billion is anticipated to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period of approximately $0.8 billion for acquisitions and for strategic capital. Strategic investments could include opportunities in the unregulated shale arena, or investments related to the water/energy nexus, and/or concession agreements or acquisitions. Our total capital plan for 2015 is estimated to be approximately $1.2 billion with approximately $1.1 billion allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth. The remaining $0.1 billion is expected to be spent for acquisitions and strategic investment purposes. The charts below set forth our estimated percentage of projected capital expenditures over the period of 2015 to 2019 for upgrading our infrastructure and systems by asset type and purpose of investment, respectively:

% Projected Capital Expenditures by Asset Type

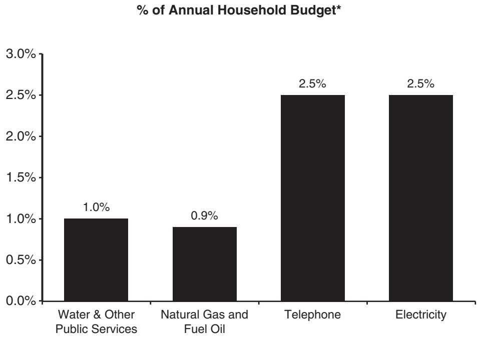


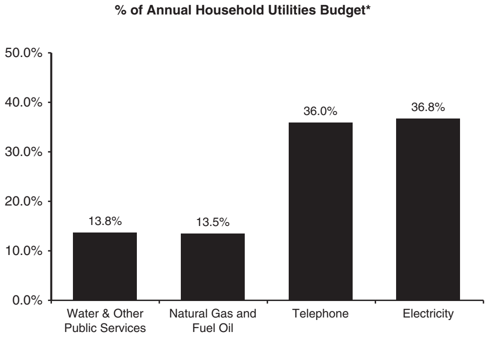
% Projected Capital Expenditures by Purpose



Water and Wastewater Rates

Water and wastewater rates in the United States are among the lowest for developed countries; and for most U.S. consumers, water and wastewater bills make up a relatively small percentage of household expenditures compared to other utility services. The following chart sets forth the relative cost of water and other public services, including trash and garbage collection and sewer maintenance, in the United States as a percentage of total household utility expenditures:


% of Annual Household Budget*


% of Annual Household Utilities Budget*

* Source: Bureau of Labor Statistics-Consumer Expenditures Survey, 2012 (assumes four person household)

Environmental, Health and Safety and Water Quality Regulation

Our water and wastewater operations, including the services provided under both our Regulated Businesses and Market-Based Operations, are subject to extensive United States federal, state and local laws and regulations, and in the case of our Canadian operations, Canadian laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat, discharge and dispose of wastewater. We are also subject to certain regulations regarding fire protection services in the areas we serve. These regulations include the Safe Drinking Water Act, the Clean Water Act and other federal, state, local and Canadian laws and regulations governing the provision of water and wastewater services, particularly with respect to the quality of water we distribute. We also are subject to various federal, state, local and Canadian laws and regulations governing the storage of hazardous materials, the management and disposal of hazardous and solid wastes, discharges to air and water, the cleanup of contaminated sites, dam safety and other matters relating to the protection of the environment and health and safety. State PUCs also set conditions and standards for the water and wastewater services we deliver.

Environmental, health and safety and water quality regulations are complex and change frequently. The overall trend has been that they have become more stringent over time. As newer or stricter standards are introduced, our capital and operating costs could increase. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation to which our Regulated Businesses are subject. In the past, we have generally been able to recover costs associated with compliance related to environmental, health and safety standards, but this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery.

We maintain an appropriate environmental policy including responsible business practices, compliance with environmental laws and regulations, effective use of natural resources, and stewardship of biodiversity. We believe that our operations are materially in compliance with, and in many cases surpass, minimum standards required by applicable environmental laws and regulations. Water samples from across our water systems are analyzed on a regular basis for compliance with regulatory requirements. Across the Company, we conduct over one million water quality tests each year at our laboratory facilities and plant operations, including continuous on-line instrumentations such as monitoring turbidity levels, disinfectant residuals and adjustments to chemical treatment based on changes in incoming water. For 2014, we achieved a score of greater than 99% for drinking water compliance and according to the EPA statistics, American Water's performance has been far better than the industry average over the last several years. In fact, in 2014, American Water was 20 times better than the industry average for compliance with drinking water quality standards (Maximum Contaminant Levels) and 150 times better for compliance with drinking water monitoring and reporting requirements.

We participate in the Partnership for Safe Water, EPA's voluntary program to meet more stringent goals for reducing microbial contaminants. With 68 of our 81 surface water plants receiving the program's "Director" award, which recognizes utilities that have completed a comprehensive self- assessment report, created an action plan for continuous improvement and produces high quality drinking water, we account for approximately one-third of the plants receiving such awards nationwide. In addition, 63 American Water plants have received the "Five-Year Phase III" award, while 59 have been awarded the "Ten-Year Phase III" award. Additionally, three plants received the inaugural "Fifteen-Year Phase III" award, which recognizes plants that have met the Director award status for 15 years.

Safe Drinking Water Act

The Federal Safe Drinking Water Act and regulations promulgated thereunder establish national quality standards for drinking water. The EPA has issued rules governing the levels of numerous naturally occurring and man-made chemical and microbial contaminants and radionuclides allowable in drinking water and continues to propose new rules. These rules also prescribe testing requirements for detecting regulated contaminants, the treatment systems which may be used for removing those contaminants and other requirements. Federal and state water quality requirements have become increasingly stringent, including increased water testing requirements, to reflect public health concerns. To date, the EPA has set standards for approximately 90 contaminants and indicators for drinking water. Further, certain of our water systems are in the process of monitoring for 28 additional contaminants that are not currently regulated to help the EPA determine if any of them occur at high enough levels to warrant being regulated. There are thousands of other chemical compounds that are not regulated, many of which are lacking a testing methodology, occurrence data, health effects information and/or treatment technology.

To effect the removal or inactivation of microbial organisms, the EPA has promulgated various rules to improve the disinfection and filtration of drinking water and to reduce consumers' exposure to disinfectants and byproducts of the disinfection process. In January 2006, the EPA promulgated the Long-term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproduct Rule. In October 2006, the EPA finalized the Ground Water Rule, applicable to water systems providing water from underground sources. The EPA also revised the monitoring and reporting requirements of the existing Lead and Copper Rule in 2007 and Congress enacted the Reduction of Lead in Drinking Water Act on January 4, 2011 regarding the use and introduction into commerce of lead pipes, plumbing fittings or fixtures, solder and flux. In 2012, the EPA finalized revisions to the Total Coliform Rule that were part of the mandate of a Federal Advisory Committee appointed to negotiate the changes. Most of the anticipated changes to the rule will not be effective until 2016. The EPA is actively considering regulations for a number of contaminants, including, strontium, hexavalent chromium, fluoride, nitrosamines, perchlorate, some pharmaceuticals and certain volatile organic compounds, but we do not anticipate that any of these regulations will require implementation in 2015. On July 1, 2014 the State of California implemented a standard making the primary drinking water standard 10 ug/L for hexavalent chromium. We are in compliance with this new standard.

Although it is difficult to project the ultimate costs of complying with the above or other pending or future requirements, we do not expect current requirements under the Safe Drinking Water Act to have a material impact on our operations or financial condition. In addition, capital expenditures and operating costs to comply with environmental mandates traditionally have been recognized by PUCs as appropriate for inclusion in establishing rates. As a result, we expect to fully recover the operating and capital costs resulting from these pending or future requirements.

Clean Water Act

The Federal Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and groundwater. In addition to requirements applicable to our wastewater collection systems, our operations require discharge permits under the National Pollutant Discharge Elimination System ("NPDES") permit program established under the Clean Water Act. Pursuant to the NPDES program, the EPA or implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. We maintain the necessary permits and approvals for the discharges from our water and wastewater facilities. From time to time, discharge violations occur at our facilities, some of which result in fines. We do not expect any such violations or fines to have a material impact on our results of operations or financial condition.

Other Environmental, Health and Safety and Water Quality Matters

Our operations also involve the use, storage and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals which generate wastes that require proper handling and disposal under applicable environmental requirements. We also could incur remedial costs in connection with any contamination relating to our operations or facilities or our off-site disposal of wastes. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the United States Occupational Safety and Health Act and are subject to inspections thereunder. For further information, see "Business—Research and Development."

Certain of our subsidiaries are involved in pending legal proceedings relating to environmental matters. These proceedings are described further in the section entitled "Item 3—Legal Proceedings."

Research and Development

We established a formal research and development program in 1981 with the goal of improving water quality and operational effectiveness in all areas of our business. Our research and development personnel are located in New Jersey. In addition, our quality control and testing laboratory in Belleville, Illinois supports research through testing and analysis.

Since the formation of the EPA in 1970, we have collaborated with the agency to achieve effective environmental, health and safety and water quality regulation. This relationship has developed to include sharing of our research and national water quality monitoring data in addition to our treatment and distribution system optimization research. Our engagement with the EPA has helped us to achieve a leadership position for our company within the water and wastewater industry and has provided us with early insight into emerging regulatory issues and initiatives, thereby allowing us to anticipate and to accommodate our future compliance requirements.

Approximately one-quarter of our research budget is funded by competitively awarded outside research grants. Such grants reduce the cost of research and allow collaboration with leading national and international researchers. In 2014, we spent \$3.6 million, including \$0.8 million funded by research grants. Spending, net of research grant funding, amounted to \$2.9 million and \$2.8 million in 2013 and 2012, respectively.

We believe that continued research and development activities are critical for providing quality and reliable service at reasonable rates, and maintaining our leadership position in the industry, which provides us with a competitive advantage as we seek additional business with new and existing customers.

Support Services

Our American Water Works Service Company subsidiary provides shared services and corporate governance for our operating subsidiaries that gain economies of scale through central administration. These services are provided predominantly to our Regulated Businesses under the terms of contracts with these companies that have been approved by state PUCs, where necessary. These services, which are provided at cost, may include accounting, administration, business development, communications, corporate administrative, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, investor relations, legal, operations, procurement, rates support, security, risk management, water quality and research and development. These arrangements afford our operating companies professional and technical talent on an economical and timely basis. We also operate two national customer service centers, which are located in Alton, Illinois and Pensacola, Florida, that provide customer relations, operations and field service support.

Our security department provides oversight and governance of physical and information security throughout our operations and is responsible for designing, implementing, monitoring and supporting active and effective physical and information security controls. We have complied with EPA regulations concerning vulnerability assessments and have made filings to the EPA as required. Vulnerability assessments are conducted periodically to evaluate the effectiveness of existing security controls and serve as the basis for further capital investment in security for the facility. Information security controls are deployed or integrated to prevent unauthorized access to company information systems, assure the continuity of business processes dependent upon automation, ensure the integrity of our data and support regulatory and legislative compliance requirements. While we do not make public comments on the details of our security programs, we are in contact with federal, state and local law enforcement agencies to coordinate and improve the security of our water delivery systems and to safeguard our water supply.

Employee Matters

Approximately 50% of our workforce is represented by unions. We have 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. We have two union contracts beyond expiration that affect approximately 50 employees, all of which are actively working under the old agreements. During 2015, 24 of our local union contracts will expire.

On October 13, 2014, we entered into a settlement agreement with the Utility Workers Union of America ("UWUA") designed to resolve a dispute between our company and the labor unions representing employees in the Regulated Businesses ("the Unions"). Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, we agreed to make a $10.0 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of our last, best and final offer. The majority of the distributions are expected to be used to reimburse employees for medical claims, which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates – Active Employees VEBA (the "VEBA Trust"), to which we previously have made contributions.

The Unions approved the settlement agreement on October 30, 2014, and the National Labor Relations Board (the "NLRB") approved the settlement agreement on October 31, 2014. The NLRB, UWUA and the Company filed a joint stipulation to dismiss the petition for review. The Seventh Circuit voluntarily dismissed all the parties' appeals on December 16, 2014. The NLRB will dismiss the unfair labor practice charge pending on the national benefits dispute when we have complied with the settlement agreement.

Available Information

We are subject to the reporting requirements of the Exchange Act, as amended. We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, *http://www.amwater.com,* shortly after we file or furnish the information to the SEC. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at their Public Reference Room, located at 100 F Street N.E., Washington, D.C. 20549. The phone number for information about the operation of the Public Reference Room is 1-800-732-0330 (if you are calling from within the United States), or 202-551-8090. Because we electronically file our reports, you may also obtain this information from the SEC internet website at *http://www.sec.gov.* You can obtain additional contact information for the SEC on their website.

The American Water corporate governance guidelines and the charters for each of the standing committees of the board of directors, together with the American Water Code of Ethics and additional information regarding our corporate governance, are available on our website, *http://www.amwater.com,* and will be made available, without charge, in print to any shareholder who requests such documents from Investor Relations Department, American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ, 08043.

ITEM 1A. RISK FACTORS

We operate in a market and regulatory environment that involves significant risks, many of which are beyond our control. In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position, results of operations or cash flows and liquidity.

Risks Related to Our Industry and Business

Our utility operations are subject to extensive economic regulation. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations.

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are economically regulated by state PUCs. Economic regulation affects the rates we charge our customers and has a significant impact on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, including, but not limited to, operating and maintenance costs, depreciation, financing costs and taxes and provide us the opportunity to earn an appropriate rate of return on our invested capital.

Our ability to successfully implement our business plan and strategy depends on the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. Our rate increase requests may not be approved, and any approval may not be given in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is sufficient to cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations; enable us to recover our investment; and provide us with an opportunity to earn an appropriate rate of return on our investment, in which case our business, financial condition, results of operations, cash flows and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital to the extent permitted by state PUCs. This could occur if certain conditions exist, including but not limited to, if water usage is less than anticipated in establishing rates, as billings to customers are, to a considerable extent, based on usage in addition to a base rate, or if our investments or expenses prove to be higher than was estimated in establishing rates.

Our operations and the quality of water we supply are subject to extensive environmental, water quality and health and safety laws and regulations. Compliance with increasingly stringent laws and regulations could impact our operating costs; and violations of such laws and regulations could subject us to substantial liabilities and costs.

Our water and wastewater operations are subject to extensive federal, state and local laws and regulations and, in the case of our Canadian operations, Canadian laws and regulations that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, discharge and dispose of wastewater. These requirements include the Clean Water Act of 1972, which we refer to as the Clean Water Act, and the Safe Drinking Water Act of 1974, which we refer to as the Safe Drinking Water Act, and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations.

In addition, state PUCs also set conditions and standards for the water and wastewater services we deliver. If we deliver water or wastewater services to our customers that do not comply with regulatory standards, or otherwise violate environmental laws, regulations or permits, or other health and safety and water quality regulations, we could incur substantial fines, penalties or other sanctions or costs, as well as damage to our reputation. In the most serious cases, regulators could reduce requested rate increases or force us to discontinue operations and sell our operating assets to another utility or to a municipality. Given the nature of our business which, in part, involves supplying water for human consumption, any potential non-compliance with, or violation of, environmental, water quality and health and safety laws or regulations would likely pose a more significant risk to us than to a company not similarly involved in the water and wastewater industry.

We incur substantial operating and capital costs on an ongoing basis to comply with environmental, water quality and health and safety laws and regulations. These laws and regulations, and their enforcement, generally have become more stringent over time, and new or stricter requirements could increase our costs. Although we may seek to recover ongoing compliance costs in our rates, there can be no guarantee that the various state PUCs or similar regulatory bodies that govern our Regulated Businesses would approve rate increases that would enable us to recover such costs or that such costs will not materially and adversely affect our financial condition, results of operations, cash flows and liquidity.

We may also incur liabilities if, under environmental laws and regulations, we are required to investigate and clean up environmental contamination at our properties, including potential spills of hazardous chemicals, such as chlorine, which we use to treat water, or at off-site locations where we have disposed of waste or caused an adverse environmental impact. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs and could adversely affect our financial condition, results of operations, cash flows and liquidity. Such remediation costs may not be covered by insurance and may make it difficult for us to secure insurance at acceptable rates in the future.

Limitations on availability of water supplies or restrictions on our use of water supplies as a result of government regulation or action may adversely affect our access to sources of water, our ability to supply water to customers or the demand for our water services.

Our ability to meet the existing and future demand of our customers depends on the availability of an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights (determined by legislation or court decisions) and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing-flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements, which can change from time to time, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water. For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with an October 20, 2009 cease and desist order of the California State Water Resources Control Board (the “2009 Order”) that our subsidiary, California-American Water Company (“Cal Am”), significantly decrease its diversions from the Carmel River in accordance with a reduction schedule running through December 31, 2016 (the “2016 Deadline”). We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. We cannot predict whether Cal Am will be able to secure alternative sources of water, or if Cal Am will be exposed to liabilities if it is unable to meet the 2016 Deadline under the 2009 Order. If Cal Am or any of our other subsidiaries are unable to secure an alternative source of water, or if other adverse consequences result from the events described above, our business, financial condition, results of operations and cash flows could be adversely affected. See Part I, Item 3, “Legal Proceedings” in this report that includes additional information regarding the Cal Am matter.

Service disruptions caused by severe weather conditions or natural disasters may disrupt our operations and economic conditions may reduce the demand for water services, either of which could adversely affect our financial condition and results of operations.

Service interruptions due to severe weather events are possible across all our service areas. These include winter storms and freezing conditions, high wind conditions, hurricanes, tornados, earthquakes, landslides coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, and severe electrical storms. Weather events such as these may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. In October 2012, our east coast subsidiaries were affected by Hurricane Sandy. The most significant impact to our business was caused by the widespread power outages caused by the storm’s heavy winds, rain and snow. In addition, adverse economic conditions can cause our customers, particularly industrial customers, to curtail operations. A curtailment of operations by an industrial customer would typically result in reduced water usage. In more severe circumstances, the decline in usage could be permanent. Any decrease in demand resulting from difficult economic conditions could adversely affect our financial condition and results of operations.

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas. If a regional drought were to occur, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. For example, as a result of the reduced rain fall and overall dry conditions throughout the state of California, Cal Am has been closely monitoring its owned and purchased water supplies. On January 17, 2014, the Governor of California issued a drought declaration asking Californians to reduce their water use by 20%. On April 25, 2014, the Governor issued an Executive Order addressing the drought and on July 15, 2014 the State Water Resources Control Board approved mandatory statewide water restrictions. The CPUC issued a resolution requiring Cal Am and all other regulated water providers to abide by the State Water Resources Control Board restrictions and requirements. While expenses incurred in implementing water conservation and rationing plans in Cal Am's districts are generally recoverable provided the CPUC determines they were reasonable, Cal Am cannot assure that such expenses will, in fact, be fully recovered. Moreover, reductions in water consumption, including those resulting from installation of equipment or changed consumer behavior, may persist even after drought restrictions are repealed and the drought has ended, which could adversely affect our business, financial condition, results of operations and cash flows.

Some scientific experts are predicting a worsening of weather volatility in the future. Changing severe weather patterns could require additional expenditures to reduce the risk associated with any increasing storm, flood and drought occurrences. The issue of climate change is receiving increased attention worldwide. Many climate change predictions, if true, present several potential challenges to water and wastewater utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations.

Regulatory and environmental risks associated with the collection, treatment and disposal of wastewater may impose significant costs.

The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve significant environmental risks. If collection, treatment or disposal systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. Moreover, if we are deemed liable for any damage caused by overflow or disposal operations, our losses might not be covered by insurance, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

The current regulatory rate setting structure may result in a significant delay, or "regulatory lag," from the time that we invest in infrastructure improvements, incur increased operating expenses or experience declining water usage, to the time at which we can address these events through the rate case application process; our inability to minimize regulatory lag could adversely affect our business.

There is typically a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating expense increase and the time when those costs are reflected in rates. In addition, billings permitted by state PUCs typically are, to a considerable extent, based on the volume of water usage in addition to a minimum base rate. Thus, we may experience a regulatory lag between the time our revenues are affected by declining usage and the time we are able to adjust the rate per gallon of usage to address declining usage. Our inability to reduce this regulatory lag could have an adverse effect on our financial condition, results of operations, cash flows and liquidity.

We endeavor to reduce regulatory lag by pursuing positive regulatory policies. For example, seven state PUCs permit rates to be adjusted outside of the rate case application process through surcharges that address certain capital investments, such as replacement of aging infrastructure. These surcharges are adjusted periodically based on factors such as project completion or future budgeted expenditures, and specific surcharges are eliminated once the related capital investment is incorporated in new PUC approved rates. Other examples of such programs include states that allow us to increase rates for certain cost increases that are beyond our control, such as purchased water costs or property or other taxes, or power, conservation, chemical or other expenditures. These surcharge mechanisms enable us to adjust rates in less time after costs have been incurred than would be the case under the rate case application process. While these programs have been a positive development and we continue to seek expansion of programs to mitigate regulatory lag, some state PUCs have not approved such programs. The PUC may not adopt any surcharge programs and existing programs may not continue in their current form, or at all. Furthermore, no state has adopted surcharge programs that include all elements of cost that may change between general rate proceedings. Although we intend to continue our efforts to expand state PUC approval of surcharges to address issues of regulatory lag, our efforts may not be successful, in which case our business, financial condition, results of operations, cash flows and liquidity may be adversely affected.

Our Regulated Businesses require significant capital expenditures and may suffer if we fail to secure appropriate funding to make investments, or if we experience delays in completing major capital expenditure projects.

The water and wastewater utility business is capital intensive. We invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2014, we invested $1.0 billion in net Company-funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems could increase in the future. We fund capital improvement projects using cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and issuances of long-term debt and equity securities. We may not be able to access the debt and equity capital markets, when necessary or desirable to fund capital improvements on favorable terms or at all.

In addition, we could be limited in our ability to both pursue growth and pay dividends in accordance with our dividend policy. In order to fund construction expenditures, acquisitions, principal and interest payments on our indebtedness, and dividends at the level currently anticipated under our dividend policy, we expect that we will need additional financing. We expect cash from operating activities, after the distribution of dividends, to fund a portion of our capital expenditures.

The ability to obtain financing at reasonable rates is contingent upon our credit ratings and general market conditions. If we do not obtain sufficient financing, we could be unable to maintain our existing property, plant and equipment, fund our capital investment strategies, meet our growth targets and expand our rate base to enable us to earn satisfactory future returns on our investments. Even with adequate financial resources to make required capital expenditures, we face the additional risk that we will not complete our major capital projects on time, as a result of construction delays, permitting delays, environmental restrictions, or other obstacles. Each of these outcomes could adversely affect our financial condition and results of operations.

Weather conditions could adversely affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to increased water usage for irrigation systems, swimming pools, cooling systems and other applications. Throughout the year, and particularly during typically warmer months, demand tends to vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Market conditions may unfavorably impact the value of benefit plan assets and liabilities, as well as assumptions related to the benefit plans, which may require us to provide significant additional funding.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. The value of these assets is subject to market fluctuations, which may cause investment returns to fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets can increase the funding requirements under our pension and postretirement benefit plans. Additionally, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. If interest rates decrease, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, such as increases in life expectancy assumptions may also increase our funding requirements. Future increases in pension and other postretirement costs as a result of reduced plan assets may not be fully recoverable in rates, in which case our results of operations and financial position could be negatively affected.

In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension and postretirement plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased, which could adversely affect our financial position and results of operations.

Our indebtedness could affect our business adversely and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flows to satisfy our liquidity needs.

As of December 31, 2014, our indebtedness (including preferred stock with mandatory redemption requirements) was $6 billion, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital requirements or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at variable rates;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- impairing our access to the capital markets for debt and equity;
- likely requiring that an increasing portion of our cash flows from operations be dedicated to the payment of the principal and interest on our debt, thereby reducing funds available for future operations, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our revolving credit facility or issue new debt securities. Moreover, additional borrowings may be required to refinance outstanding indebtedness. Debt maturities and sinking fund payments in 2015, 2016 and 2017 are $61.1 million, $53.4 million and $572.8 million, respectively. We can provide no assurance that we will be able to access the debt capital markets on favorable terms, if at all. Moreover, if new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

We will depend primarily on operations to fund our expenses and to pay the principal and interest on our outstanding debt. Therefore, our ability to pay our expenses and satisfy our debt service obligations depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors largely beyond our control. If we do not have sufficient cash flows to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, sell assets, borrow additional funds or sell additional equity. In addition, if our business does not generate sufficient cash flows from operations, or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to changes in our business, which could cause our operating results and prospects to be affected adversely.

Contamination of our sources of water could result in service interruptions and exposure to substances not typically found in potable water supplies, and subject our subsidiaries to reduction in usage, governmental enforcement actions, private litigation and responsive obligations.

The water supplies that flow into our treatment plants and are then delivered into our distribution system are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as perchlorate and methyl tertiary butyl ether, and possible terrorist attacks. If one of our water supplies is contaminated, depending on the nature of the contamination, we may have to take responsive actions that could include (1) continuing limited use of the water supply under a “Do Not Use” protective order that enables continuation of basic sanitation and essential fire protection, or (2) interrupting the use of that water supply and locating an adequate supply of water from another water source, including, in some cases, through the purchase of water from a third-party supplier. If service is disrupted and we are unable to access a substitute water supply in a cost-effective manner, our financial condition, results of operations, cash flows, liquidity and reputation may be adversely affected. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. We might not be able to recover costs associated with treating or decontaminating water supplies through rates, or recovery of these costs may not occur in a timely manner. Moreover, we could be subject to claims for damages arising from government enforcement actions or toxic tort or other lawsuits arising out of interruption of service or human exposure to hazardous substances in our drinking water supplies.

In this regard, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal into the Elk River near the WVAWC treatment plant intake in Charleston, West Virginia.

WVAWC has and may continue to incur significant costs in responding to this incident and may not be able to recover such costs through rates or from insurers. Even if recovery is possible, it may not occur in a timely manner. Government investigations relating to the Freedom Industries spill have been initiated, state laws have been enacted, state and federal legislatures are considering changes to existing laws or rules associated with new laws, and 58 lawsuits have been filed to date against WVAWC and, in a few cases, against us or another of our affiliates. While the Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company and WVAWC believe they and other Company affiliates have valid, meritorious defenses to the lawsuits, WVAWC will incur defense costs that may not be recoverable. Moreover, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations. See Part I, Item 3, “Legal Proceedings” in this report for additional information regarding the WVAWC matter.

In addition, we are a party to litigation in the normal course of business. Since we engage in providing drinking water to our customers, failures can result in substantial injury or damage to our customers, employees or others and we could be exposed to substantial claims and litigation. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and may be brought by our customers or third parties.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavorable rulings can and do occur. Pending or future claims against us, to the extent we are not insured against a loss or our insurer fails to provide coverage, could have a material adverse impact on our business, financial condition, and results of operations.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. Our insurance programs have varying coverage limits, exclusions and maximums, and insurance companies may seek to deny claims we might make. Generally, our insurance policies cover property damage, worker's compensation, employer's liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Although in the past we have been generally able to cover our insurance needs, there can be no assurances that we can secure all necessary or appropriate insurance in the future, or that such insurance can be economically secured. For example, catastrophic events can result in decreased coverage limits, more limited coverage, increased premium costs or deductibles.

Work stoppages and other labor relations matters could adversely affect our results of operations.

Approximately 50% of our workforce is represented by unions. We have 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. We might not be able to renegotiate labor contracts on terms that are fair to us. Any negotiations or dispute resolution processes undertaken in connection with our labor contracts could be delayed or affected by labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages, and our failure to obtain favorable labor contract terms during renegotiations may adversely affect our financial condition, results of operations, cash flows and liquidity.

While we have developed contingency plans to be implemented as necessary if a work stoppage or strike does occur, a strike or work stoppage may have a material adverse impact on our results of operations, financial position or cash flows.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own 89 dams. A failure of any of those dams could result in personal injury and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

We also are required from time to time to decommission, repair or upgrade the dams that we own. The cost of such repairs or upgrades can be and has been material. The federal and state agencies that regulate our operations may adopt rules and regulations requiring us to dismantle our dams, which also could entail material costs. Although in most cases, the PUC has permitted recovery of expenses and capital investment related to dam rehabilitation, we might not be able to recover costs of repairs, upgrades or dismantling through rates in the future. The inability to recover these costs or delayed recovery of the costs as a result of regulatory lag can affect our financial condition, results of operations, cash flows and liquidity.

Any failure of our network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

Our operating subsidiaries distribute water and collect wastewater through an extensive network of pipes and storage systems located across the United States. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water and wastewater delivery requirements prescribed by government regulators, including state PUCs with jurisdiction over our operations, and adversely affect our financial condition, results of operations, cash flows, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future. Moreover, to the extent such business interruptions or other losses are not covered by insurance, they may not be recovered through rate adjustments.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.

In addition to cash from operations, we rely on our revolving credit facility, commercial paper programs, and the capital markets to satisfy our liquidity needs. In this regard, our principal external source of liquidity is our revolving credit facility. We regularly use our commercial paper program as a principal source of short-term borrowing due to the generally more attractive rates we obtain in the commercial paper market. However, disruptions in the capital markets could limit our ability to access capital. While our credit facility lending banks have met all of their obligations, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry's financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. In order to meet our short-term liquidity needs, particularly if borrowings through the commercial paper market are unavailable, we maintain a $1.25 billion revolving credit facility. Under the terms of our revolving credit facility, commitments of $70 million mature in October 2017 and $1.18 billion mature in October 2018. Our inability to maintain, renew or replace these commitments could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity.

American Water Capital Corp. ("AWCC"), our financing subsidiary, had no outstanding borrowings under the revolving credit facility and $36.5 million of outstanding letters of credit under the credit facility as of February 19, 2015. AWCC had $502.9 million of outstanding commercial paper as of February 19, 2015. Our lenders may not meet their existing commitments and we may not be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Longer term disruptions in the capital and credit markets as a result of uncertainty, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital and credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures.

Any impediments to our access to the capital markets or failure of our lenders to meet their commitments that result from financial market disruptions could expose us to increased interest expense, require us to institute cash conservation measures or otherwise adversely affect our business, financial condition, results of operations, cash flows, and liquidity.

Changes in laws and regulations over which we have no control and changes in certain agreements can significantly affect our business and results of operations.

New legislation, regulations, government policies or court decisions can materially affect our operations. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as regulators and the policies of the regulatory agencies that they serve. New laws or regulations, new interpretations of existing laws or regulations, changes in agency policy, including those made in response to shifts in public opinion, or conditions imposed during the regulatory hearing process could have the following consequences, among others:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- restricting our ability to terminate our services to customers who owe us money for services previously provided or limiting our bill collection efforts;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to buy or sell assets or issue securities;
- changing regulations that affect the benefits we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
- making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- placing limitations, prohibitions or other requirements with respect to the sharing of information and participation in transactions by or between a regulated subsidiary and us or our other affiliates, including our service company and any of our other subsidiaries;
- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and
- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

Any of the foregoing consequences could have an adverse effect on our business, financial condition, results of operations, cash flows and liquidity.

An important part of our growth strategy is the acquisition of water and wastewater systems. Any further acquisitions we undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

An important element of our growth strategy is the acquisition of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to expand our business.

The negotiation of potential acquisitions as well as the integration of acquired businesses with our existing operations could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- issuances of our equity securities;

- incurrence of debt, contingent liabilities, environmental liabilities and assumption of liabilities of an acquired business, including liabilities that were unknown at the time of acquisition;
- seeking recovery of acquisition premiums
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets at values that ultimately may be subject to impairment charges if we do not realize the initially recorded value;
- fluctuations in quarterly results;
- other acquisition-related expenses;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements; and
- difficulties assimilating personnel, services and systems.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business, pay dividends and to comply with regulatory requirements. The businesses we acquire in the future may not achieve anticipated sales and profitability, and any difficulties we encounter in the integration process could interfere with our operations, reduce our operating margins and adversely affect our internal control over financial reporting.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. If consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to expand through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities adjacent to or near our existing service areas, thereby impairing our ability to geographically expand the affected service areas. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service areas. Our growth could be hindered if we are not able to compete effectively for new companies and/or service areas with other companies or strategic and financial buyers that have lower costs of operations. Any of these risks may adversely affect our business, financial condition, and results of operations.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.

Our total assets include $1.2 billion of goodwill at December 31, 2014. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003 and the acquisition of E'Town Corporation by a predecessor to our previous owner in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and other intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These market events could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, market price performance of our common stock that composes unfavorably to our peer companies, or decreases in control premiums. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or our interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

The assets of our Regulated Businesses are subject to condemnation through eminent domain.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized efforts may arise from time to time in one or more of the service areas in which our Regulated Businesses operate to convert our assets to public ownership and operation through exercise of the governmental power of eminent domain. Should a municipality or other government subdivision or a citizen group seek to acquire our assets through eminent domain, either directly or indirectly as a result of a citizen petition we may resist the acquisition. For example, condemnation threats have been made in the Chicago, Illinois area where the municipalities of Homer Glen (approximately 6,000 customer connections) and Bolingbrook (approximately 23,000 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities (approximately 29,200 customer connections) formed a water agency to pursue eminent domain with respect to our water pipeline that serves those five communities and made an offer of $37.6 million for the pipeline. The water agency filed an eminent domain lawsuit in January 2013 that is still pending.

Contesting an exercise of condemnation through eminent domain, or responding to a citizen petition, may result in costly legal proceedings and may divert the attention of the affected Regulated Businesses' management from the operation of its business. Moreover, our efforts to resist the condemnation may not be successful.

If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain, there is a risk that we will not receive adequate compensation for the business, that we will not be able to keep the compensation, or that we will not be able to divest the business without incurring significant one-time charges.

For information regarding specific condemnation threats made against us that were recently concluded see Item 1, "Business—Condemnation."

We rely on technology to facilitate the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our technology systems, particularly our information technology ("IT") systems, are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. For example, we depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. While we recently completed the business transformation implementation for our Enterprise Resource Planning ("ERP"), Enterprise Asset Management ("EAM") and Customer Information ("CIS") systems, a number of our mission and business critical IT systems are older, such as our SCADA (supervisory control and data acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cybersecurity incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;

- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

These events may result in physical and electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of outdated existing technology to enable us to continue to operate at our current level of efficiency.

We may be subject to physical and/or cyber attacks.

As operators of critical infrastructure, we may face a heightened risk of physical and/or cyber attacks. Our water and wastewater systems may be vulnerable to disability or failures as a result of physical or cyber acts of war or terrorism, vandalism or other causes. Our corporate and information technology systems may be vulnerable to unauthorized access due to hacking, viruses, acts of war or terrorism, and other causes.

If, despite our security measures, a significant physical attack or cyber breach occurred, we could have our operations disrupted, property damaged, and customer information stolen; experience substantial loss of revenues, response costs, and other financial loss; and be subject to increased regulation, litigation, and damage to our reputation, any of which could have a negative impact on our business and results of operations.

We may not be able to fully utilize our U.S. and state net operating loss carryforwards.

As of December 31, 2014, we had U.S. federal and state net operating loss (“NOL”) carryforwards of approximately $1.0 billion and $542 million, respectively. Our federal NOL carryforwards begin to expire in 2028, and our state NOL carryforwards will expire between 2015 and 2033. Our ability to utilize our NOL carryforwards is primarily dependent upon our ability to generate sufficient taxable income. Moreover, because our previous owner’s divestiture of its stock was considered an “ownership change” under Section 382 of the Internal Revenue Code, the amount of NOL carryforwards that may be utilized in any year is limited. Our management believes the federal NOL carryforwards are more likely than not to be recovered and therefore currently require no valuation allowance. At December 31, 2014, $63.1 million of the state NOL carryforwards have been offset by a valuation allowance because we do not believe these NOLs will more likely than not be realized in the future, and we have, in the past, been unable to utilize certain of our NOLs. The establishment or increase of a valuation allowance in the future would reduce our deferred income tax assets and our net income.

Our actual results may differ from those estimated by management in making its assessment as to our ability to use the NOL carryforwards. Moreover, changes in income tax laws, the economy and the general business environment could affect the future utilization of the NOL carryforwards. If we are unable to fully utilize our NOL carryforwards to offset taxable income generated in the future, our financial position, results of operations and cash flows could be materially adversely affected.

We (excluding our regulated subsidiaries) provide performance guarantees with respect to certain obligations of our Market-Based Operations, including financial guarantees or deposits, to our public-sector and public clients, which may seek to enforce the guarantees if our Market-Based Operations do not satisfy these obligations.

Under the terms of some of our agreements for the provision of services to water and wastewater facilities with municipalities, other governmental entities and other customers, American Water (excluding our regulated subsidiaries) provides guarantees of specified performance obligations of our Market-Based Operations, including financial guarantees or deposits. In the event our Market-Based Operations fail to perform these obligations, the entity holding the guarantees may seek to enforce the performance commitments against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flows, and liquidity could be adversely affected.

At December 31, 2014, we had remaining performance commitments as measured by remaining contract revenue totaling approximately $865.8 million and this amount is likely to increase if our Market-Based Operations expand. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms.

Our Market-Based Operations' long-term contracts with the Department of Defense may be terminated for the convenience of the U.S. Government and are subject to periodic contract price redetermination.

All of our contracts with the Department of Defense for the operation and maintenance of water and wastewater systems may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. Government or as a result of default or non-performance by the subsidiary performing the contract. In addition, the contract price for each of these military contracts is typically subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Any early contract termination or unfavorable price redetermination could adversely affect our results of operations.

We operate a number of water and wastewater systems under O&M contracts and face the risk that the owners of those systems may fail to provide capital to properly maintain those systems, which may negatively affect us as the operators of the systems.

We operate a number of water and wastewater systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, and it is generally the responsibility of the owner of the system to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Our Market-Based Operations are party to long-term contracts to operate and maintain water and wastewater systems under which we may incur costs in excess of payments received.

Some of our Market-Based Operations enter into long-term contracts under which they agree to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities, which includes specified major maintenance for some of those facilities, in exchange for an annual fee. Our Market-Based Operations are generally subject to the risk that costs associated with operating and maintaining the facilities, including production costs such as purchased water, electricity, fuel and chemicals used in water treatment, may exceed the fees received from the municipality or other contracting party. Losses under these contracts or guarantees may adversely affect our financial condition, results of operations, cash flows and liquidity.

Our inability to efficiently optimize and stabilize our recently implemented business transformation project, could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

Over the past several years, we have implemented a "business transformation" project, which is intended to improve our business processes and upgrade our legacy core information technology systems. This multi-year, enterprise-wide initiative supports our broader strategic initiatives. The project is intended to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service capabilities. The scale and costs associated with the business transformation project were significant. Any technical or other difficulties in optimizing and stabilizing this initiative may increase the costs of the project and have an adverse effect on our operations and reporting processes, including our internal control over financial reporting. In August 2012, our new business systems associated with Phase I of our business transformation project became operational. Phase I consisted of the roll-out of the ERP, which encompassed applications that handle human resources, finance, and supply chain/procurement management activities. In the second quarter of 2013, we implemented Phase II of our business transformation project in a number of our regulated subsidiaries. In the fourth quarter of 2013, Phase II of our business transformation project was implemented in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which manages an asset's lifecycle, and a Customer Information system, which contains all billing and collections data pertaining to American Water's customers for our Regulated segment. Although efforts have been made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

As we make adjustments to our operations, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. Further, we may not realize anticipated cost improvements and greater efficiencies from the project.

We operate numerous information technology systems that are in various stages of integration, sometimes leading to inefficiencies. Therefore, delays in stabilization and optimization of the business transformation project will also delay cost savings and efficiencies expected to result from the project. We may also experience difficulties consolidating our current systems, moving to a common set of operational processes and implementing a successful change management process. These difficulties may impact our ability to meet customer needs efficiently. Any such delays or difficulties may have a material and adverse impact on our business, client relationships and financial results.

Our business has inherently dangerous workplaces. If we fail to maintain safe work sites, we can be exposed to financial losses as well as penalties and other liabilities.

Our safety record is critical to our reputation. We maintain health and safety standards to protect our employees, customers, vendors and the public. Although we intend to adhere to such health and safety standards it is unlikely that we will be able to avoid accidents at all times.

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, chemicals and other regulated materials. On many sites we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase employee turnover and raise our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, and results of operations.

In addition, our operations can involve the handling and storage of hazardous chemicals, which, if improperly handled, stored or disposed of, could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure we implement effective health, safety, and environmental work procedures throughout our organization, including construction sites and maintenance sites, the failure to comply with such regulations could subject us to liability.

Our continued success is dependent upon our ability to hire, retain, and utilize qualified personnel.

The success of our business is dependent upon our ability to hire, retain, and utilize qualified personnel, including engineers, craft personnel, and corporate management professionals who have the required experience and expertise. From time to time, it may be difficult to attract and retain qualified individuals with the expertise and in the timeframe demanded for our business needs. In certain geographic areas, for example, we may not be able to satisfy the demand for our services because of our inability to successfully hire and retain qualified personnel.

In addition, as some of our key personnel approach retirement age, we need to have appropriate succession plans in place and to successfully implement such plans. If we cannot attract and retain qualified personnel or effectively implement appropriate succession plans, it could have a material adverse impact on our business, financial condition, and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our properties consist of transmission, distribution and collection pipes, water and wastewater treatment plants, pumping wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, software rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water, and the collection and treatment of wastewater. Substantially all of our properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of our mortgage bonds. We lease our corporate offices, equipment and furniture, located in Voorhees, New Jersey from certain of our wholly-owned subsidiaries. These properties are utilized by our directors, officers and staff in the conduct of the business.

Our regulated subsidiaries own, in the states in which they operate, transmission, distribution and collection pipes, pump stations, treatment plants, storage tanks, reservoirs and related facilities. A substantial acreage of land is owned by our Regulated Businesses, the greater part of which is located in watershed areas, with the balance being principally sites of pumping and treatment plants, storage reservoirs, tanks and standpipes. Additionally, properties and facilities including such items as well fields, tanks, offices and operation centers are also leased by our regulated subsidiaries. Our Market-Based Operations' properties consist mainly of office furniture and IT equipment and are primarily located in New Jersey. Approximately 51% of our properties are located in New Jersey and Pennsylvania.

We maintain property insurance against loss or damage to our properties by fire or other perils, subject to certain exceptions. For insured losses, we are self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

We believe that our properties are generally maintained in good operating condition and in accordance with current standards of good water and wastewater works industry practice, and units of property are replaced as and when necessary.

ITEM 3. LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

In 1995, the California Water Resources Control Board (the "Water Resources Control Board") issued an administrative order (the "1995 Order") to Cal Am requiring Cal Am to implement an alternative water supply in lieu of diversions from the Carmel River. In response to claims that Cal Am had not diligently pursued establishing an alternative water supply as required by the 1995 Order, the Water Resources Control Board adopted the 2009 Order, finding that Cal Am has not sufficiently implemented actions to terminate its unpermitted diversions from the Carmel River as required by the 1995 Order. The 2009 Order requires, among other things, that Cal Am significantly decrease its yearly diversions from the Carmel River according to a set reduction schedule running from the date the 2009 Order was adopted until December 31, 2016, at which point all unpermitted diversions must end. Failure to effect the decrease in diversions mandated by the 2009 Order could result in substantial penalties. We can provide no assurances that Cal Am will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order or that any such compliance will not result in material additional costs or obligations to us. As noted below, Cal Am does not expect to have sufficient alternative sources of water available by the December 31, 2016 deadline, and is engaged in discussions with the Water Resources Control Board to extend the deadline.

On December 2, 2010, the California Public Utilities Commission ("CPUC") approved the Regional Desalination Project (the "RDP"), involving the construction of a desalination facility in the City of Marina, north of Monterey. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among the Marina Coast Water District ("MCWD"), the Monterey County Water Resources Agency ("MCWRA") and Cal Am. The desalination facility was to be constructed and owned by MCWD, and MCWRA was to construct the wells that were to supply water to the desalination facility. The RDP was intended, among other things, to fulfill Cal Am's obligations under the 1995 Order and the 2009 Order, in addition to other obligations.

The RDP was subject to delay due to, among other things, funding delays and investigations and inquiries initiated by public authorities relating to an alleged conflict of interest concerning a former member of the MCWRA Board of Directors (the "Former Director"). On July 7, 2011, MCWRA advised MCWD and Cal Am that the Agreements were void as a result of the conduct of the Former Director. Subsequently, on August 12, 2011, Cal Am advised MCWD and MCWRA that they had defaulted in performance of certain financing obligations under the Water Purchase Agreement. By letter delivered to MCWD and MCWRA on September 28, 2011, Cal Am terminated the Agreements as a result of MCWRA's anticipatory repudiation of the Agreements by stating they were void. On January 17, 2012, following unsuccessful mediation efforts among the parties, Cal Am publicly announced that it had withdrawn support of the RDP. Disputes among the parties with respect to the RDP continued thereafter. On July 12, 2012, the CPUC closed the proceedings relating to the RDP and stated that it would examine the recoverability of costs related to the RDP in other proceedings. Cal Am plans to file a new application seeking recovery of legal costs relating to the RDP after any pending legal disputes are resolved.

In December 2012, Cal Am, MCWRA and the County of Monterey entered into a settlement agreement under which Cal Am will forgive approximately $1.9 million previously loaned by Cal Am to MCWRA in connection with the RDP, and Cal Am will make additional payments of up to approximately $1.5 million to MCWRA. The settlement agreement, the debt forgiveness and the additional payments are conditioned on CPUC approval, including approval of Cal Am rate recovery of the debt forgiveness and the additional payments. Cal Am and MCWD also entered into a tolling agreement, which, as extended by subsequent agreements, toll applicable statutes of limitations and the deadline for commencement of litigation regarding Cal Am's claims until June 30, 2015. The MCWRA settlement agreement and the tolling and standstill agreement do not affect litigation initiated by Cal Am seeking a determination regarding the validity of the Agreements, which is described below. On May 24, 2013, Cal Am filed an application with the CPUC for approval of the settlement agreement and rate recovery on Cal Am's debt forgiveness and additional payments to MCWRA under the settlement agreement. The application is pending.

On October 4, 2012, Cal Am filed a Complaint for Declaratory Relief in the Monterey County Superior Court (subsequently transferred to the San Francisco Superior Court) against MCWRA and MCWD, seeking a determination by the Court as to whether the Agreements are void as a result of the Former Director's alleged conflict of interest, or remained valid. A trial on the matter was held on December 2-5, 2014. The Court has established deadlines for post-trial closing and reply briefs, but has not yet scheduled a date for oral argument following the February 10, 2015 deadline for submission of reply briefs.

On April 23, 2012, Cal Am filed an application with the CPUC for approval of the Monterey Peninsula Water Supply Project (the "Water Supply Project"). The Water Supply Project involves construction of a desalination plant and related facilities, all to be owned by Cal Am. In addition, the Water Supply Project may encompass Cal Am's purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project (the "GWR Project"), a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District ("MPWMD"). The Water Supply Project also would involve aquifer storage and recovery through an already established aquifer storage and recovery program between Cal Am and the MPWMD.

On July 31, 2013, Cal Am entered into a settlement agreement with 15 other parties that have intervened in the CPUC proceedings with respect to the Water Supply Project, including several Monterey County government entities, the Office of Ratepayer Advocates of the CPUC and several interest groups (the "WSP Settlement"). Under the settlement agreement, the parties have agreed on several matters relating to the Water Supply Project. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to Cal Am, and, if the GWR Project supplies water to Cal Am, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water. This settlement agreement is subject to the approval of the CPUC and will not take effect unless the CPUC determines that it is reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed Water Supply Project, which currently is expected to be issued in the first quarter of 2016.

A preliminary step to building the desalination plant is the test slant well project, involving the construction and operation of a test slant well, as well as monitoring well clusters and other related infrastructure, to confirm the suitability of the property on which permanent intake wells will be located to draw water from under Monterey Bay. As proposed by Cal Am, the site of the test slant well is on a property owned by one or more affiliates of Cemex, Inc. (collectively, "Cemex"), and in the WSP Settlement, the parties agreed that the preferred location to build a test slant well project is the Cemex property. Cal Am and Cemex have entered into an agreement under which Cal Am acquired a temporary investigative easement to construct and operate the test slant well together with monitoring wells and other related infrastructure on Cemex property and a four year option to purchase a permanent easement that will enable Cal Am's access to and operation of slant wells and related pipelines and utilities for the Water Supply Project on portions of the Cemex property to be determined if and when the final configuration of new water supply wells are approved by the California Coastal Commission ("Coastal Commission").

On November 12, 2014, the Coastal Commission approved the coastal development permit for the test slant well on the Cemex property. In addition, the Coastal Commission approved a second coastal development permit, enabling Cal Am to construct the portion of the test slant well that will be under state lands (beneath the ocean floor), provided that Cal Am acquires a lease from the California State Lands Commission (the "State Lands Commission"), which owns the state lands. The State Lands Commission executed the required lease on January 22, 2015, and the Coastal Commission issued the second coastal development permit on January 28, 2015.

On December 11, 2014, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in the Monterey County Superior Court against the Coastal Commission and Cal Am. With the consent of all parties involved, the matter was transferred to the San Jose County Superior Court. MCWD seeks, among other things, a peremptory writ of mandate commanding the Coastal Commission to vacate its decision to approve the coastal development permit relating to the Cemex property, and a permanent injunction restraining Cal Am and the Coastal Commission from taking any action to implement the test slant well project, pending full compliance with the California Environmental Quality Act ("CEQA") and the California Coastal Act (the "Coastal Act").

On December 23, 2014, Ag Land Trust, an agricultural land conservancy, filed its First Amended Petition for Writ of Mandamus with the San Jose County Superior Court against the Coastal Commission and Cal Am (the "Ag Land Trust Petition"). The Ag Land Trust Petition seeks writs of mandate ordering the Coastal Commission to set aside its approval of the test slant well project and follow California regulations and statutes in complying with CEQA and the Coastal Act, and enjoining Cal Am from engaging in any activity pursuant to the test slant well project until the project and the Coastal Commission comply with California regulations and statutes.

On January 15, 2015, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in the Santa Cruz County against the California State Lands Commission and Cal Am (the "January 2015 Petition"). The January 2015 Petition seeks injunctive relief restraining the State Lands Commission and Cal Am from taking any action to further implement the test slant well project pending full compliance with CEQA and other applicable laws; a peremptory writ of mandate commanding the State Lands Commission to vacate and set aside the decision to approve the lease allowing Cal Am to construct and operate a test slant well and associated monitoring wells on sovereign lands; and a peremptory writ of mandate directing the State Lands Commission and Cal Am to comply with the requirements of CEQA and other applicable laws.

The Coastal Commission and the State Lands Commission have not yet responded to the action or actions in which they respectively are a respondent. Cal Am has not yet responded to the actions, although it intends to contest these actions vigorously.

In addition to the foregoing matters, Cal Am's ability to move forward on the Water Supply Project is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the settlement agreements relating to the Water Supply Project. In addition, there have been delays in the initial timetable for preparation of the environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. As a result, Cal Am estimates that the earliest date by which the Water Supply Project could be completed is early 2019. We cannot assure that Cal Am's application for the Water Supply Project will be approved or that the Water Supply Project will be completed on a timely basis, if ever.

Because the projected completion date of the Water Supply Project is beyond the December 31, 2016 deadline for Cal Am to terminate unpermitted diversions from the Carmel River, Cal Am has commenced discussions with the Water Resources Control Board to extend the December 2016 deadline. While Cal Am believes the discussions have been constructive, we cannot assure that the deadline will be extended.

West Virginia Elk River Freedom Industries' Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection ("DEP"), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order for all of its approximately 93,000 customer accounts in parts of nine West Virginia counties served by the Charleston treatment plant. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention ("CDC") and EPA indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals were at non-detectable levels remained in place. In addition, based on saved samples taken on or before January 18, 2014, PPH/DiPPH was no longer detected in the water supply as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM were below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC continued to work with laboratories to test down to below 2 ppb of MCHM and announced on March 3, 2014, that it had cleared the system to below this level.

To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone and Putnam counties. Fifty-two of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. ("AWWSC," and together with WVAWC and the Company, the "American Water Defendants") were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases back to the state courts and have been consolidated for the sole purpose of resolving venue issues. Four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated complaint for those cases was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with Crude MCHM and provided by WVAWC in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The consolidated complaint names several individuals and corporate entities as defendants, including the American Water Defendants. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety or alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease. The American Water Defendants have each filed an answer to the consolidated complaint. The Company individually, and AWWSC and WVAWC together, filed motions to dismiss the consolidated complaint. Briefing on these motions was completed on January 28, 2015.

Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney's Office for the Southern District of West Virginia, the West Virginia Attorney General, and the Public Service Commission of West Virginia (the "PSC"). As a result of the U.S. Attorney's Office investigation, on December 17, 2014, four former Freedom Industries officers (three of whom also were former owners of Freedom Industries), were indicted for, among other things, negligent discharge of a pollutant in violation of the federal Clean Water Act. These executives are also facing additional federal charges resulting from a 13-count superseding indictment issued by a grand jury on January 21, 2015. In addition, information charges were filed against Freedom Industries for, among other things, negligent discharge of a pollutant in violation of the Clean Water Act, and against the former plant manager of Freedom Industries' Elk River facility and one of the individuals responsible for environmental compliance at Freedom Industries for violating the Clean Water Act.

On May 21, 2014, the PSC issued an Order initiating a General Investigation into certain matters relating to WVAWC's response to the Freedom industries spill. Three parties have intervened in the proceeding, including the Consumer Advocate Division of the PSC and two attorney-sponsored groups, including one sponsored by some of the plaintiffs' counsel involved in the civil litigation described above. WVAWC has filed testimony regarding its response to the spill and is subject to discovery from PSC staff and the intervenors as part of the General Investigation. Several disputes have arisen between the WVAWC and the intervenors regarding, among other things, the scope of the discovery and the maintenance of confidentiality with regard to certain WVAWC emergency planning documents. In addition, the intervenors and PSC staff filed expert testimony in support of their assertions that WVAWC did not act reasonably with respect to the Freedom Industries spill, and WVAWC has asserted that some of the testimony is outside the scope of the PSC proceeding. The PSC has deferred setting a revised procedural schedule and has not set a final hearing date on the matter.

The Company, WVAWC and the other Company-affiliated entities named in any of the lawsuits believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliated entities intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since April 23, 2008, our common stock has traded on the NYSE under the symbol "AWK." As of February 19, 2015, there were 179,787,780 shares of common stock outstanding and approximately 2,150 record holders of common stock. Holders of the Company's common stock are entitled to receive dividends when they are declared by the Board of Directors. When dividends on common stock are declared, they are usually paid in March, June, September and December. Future dividends are not guaranteed by the Company and will be dependent on future earnings, financial requirements, contractual provisions of debt agreements and other relevant factors.

The following table sets forth the per-share range of the high and low closing sales prices of our common stock as reported on the NYSE and the cash dividends paid and declared per share for the years ended December 31, 2014 and 2013.

	2014					2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter*	Second Quarter	Third Quarter	Fourth Quarter	Year
Dividends paid per common share	$ 0.28	$ 0.31	$ 0.31	$ 0.31	$ 1.21	$ 0.00	$ 0.28	$ 0.28	$ 0.28	$ 0.84
Dividend declared per common share	$ 0.00	$ 0.31	$ 0.62	$ 0.31	$ 1.24	$ 0.00	$ 0.28	$ 0.56	$ 0.28	$ 1.12
Price range of common stock										
—High	$45.56	$49.45	$50.61	$55.86	$55.86	$41.44	$42.74	$43.50	$43.49	$43.50
—Low	$41.16	$45.16	$46.41	$47.92	$41.16	$37.33	$39.40	$39.90	$39.13	$37.33

* The dividend that would have normally been paid in the first quarter of 2013 was paid on December 28, 2012 to allow shareholders to take advantage of the existing 2012 tax rates.

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. The program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution.

For information on securities authorized for issuance under our equity compensation see "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Statement of operations data: (1)					
Operating revenues	$3,011,328	$2,878,936	$2,853,926	$2,641,592	$2,535,131
Operating income	$1,002,576	$ 948,316	$ 924,104	$ 801,639	$ 728,951
Income from continuing operations	$ 429,841	$ 370,844	$ 373,602	$ 303,472	$ 255,451
Income from continuing operations per basic common share	$ 2.40	$ 2.08	$ 2.12	$ 1.73	$ 1.46
Income from continuing operations per diluted common share	$ 2.39	$ 2.07	$ 2.10	$ 1.72	$ 1.46

	As of December 31,				
	2014	2013	2012	2011	2010
			(In thousands)		
Balance sheet data:					
Cash and cash equivalents	$ 23,080	$ 26,964	$ 24,433	$ 14,207	$ 13,112
Utility plant and property, net of depreciation	$12,899,704	$12,244,359	$11,584,944	$10,872,042	$10,241,342
Total assets	$16,130,956	$15,088,142	$14,718,976	$14,776,391	$14,086,246
Short-term and long-term debt	$ 5,942,186	$ 5,855,712	$ 5,574,763	$ 5,882,956	$ 5,658,473
Redeemable preferred stock	$ 17,151	$ 18,827	$ 20,511	$ 22,036	$ 22,794
Total debt and redeemable preferred stock	$ 5,959,336	$ 5,874,539	$ 5,595,274	$ 5,904,992	$ 5,681,267
Common stockholders' equity	$ 4,915,591	$ 4,727,804	$ 4,443,268	$ 4,235,837	$ 4,127,725
Preferred stock without mandatory redemption requirements	$ —	$ —	$ 1,720	$ 4,547	$ 4,547
Total stockholders' equity	$ 4,915,591	$ 4,727,804	$ 4,444,988	$ 4,240,384	$ 4,132,272

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
			(In thousands, except per share data)		
Other data:					
Cash flows provided by (used in):					
Operating activities	$ 1,097,287	896,162	$ 955,598	$ 808,357	$ 774,933
Investing activities (2)	$ (1,013,989)	(1,053,294)	$ (382,356)	$ (912,397)	$ (746,743)
Financing activities (2)	$ (87,182)	159,663	$ (563,016)	$ 105,135	$ (37,334)
Construction expenditures, included in investing activities	$ (956,119)	(980,252)	$ (928,574)	$ (924,858)	$ (765,636)
Dividends paid per common share (3)	$ 1.21	$ 0.84	$ 1.21	$ 0.90	$ 0.86
Dividends declared per common share (4)	$ 1.24	$ 1.12	$ 0.98	$ 1.13	$ 0.86

(1) This information has been restated to reflect the impact of discontinued operations, as applicable. See Note 3 of the Consolidated Financial Statements for additional details on our discontinued operations.

(2) The amount for the year ended December 31, 2012 includes net proceeds from the sale of our Arizona, New Mexico and Ohio subsidiaries of approximately $561 million, with the majority of it used to pay down short-term debt. For further information, see "Item 7—Management Discussion and Analysis—Consolidated Results of Operations."

(3) 2012 includes one additional dividend payment of $0.25 per common share paid on December 28, 2012 to shareholders of record as of December 20, 2012 to allow them to take advantage of the existing 2012 tax rates.

(4) Included in 2011 was a change in the timing of dividend declarations. As a result, five dividend declarations were made during 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the financial statements and the notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-K should be read as applying to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results may differ materially *from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors" and elsewhere in this Form 10-K. You should read "Risk Factors" and "Forward-Looking Statements."*

Executive Overview

General

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenues and population served. Our approximately 6,400 employees provide drinking water, wastewater and other water related services to an estimated 15 million people in 47 states and in one Canadian province. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses provide services in 16 states and serve approximately 3.2 million customers based on the number of active service connections to our water and wastewater networks. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment.

In 2014, we continued the execution of our strategic goals. Our commitment to growth through investment in our regulated infrastructure and expansion of our regulated customer base and our Market-Based Operations, combined with operational excellence led to continued improvement in regulated operating efficiency, improved performance of our Market-Based Operations, and enabled us to provide increased value to our customers and investors. During the year, we focused on growth, addressed regulatory lag, made more efficient use of capital and improved our regulated operation and maintenance ("O&M") efficiency ratio.

2014 Financial Results

For the year ended December 31, 2014, we continued to increase net income, while making significant capital investment in our infrastructure and implementing operational efficiency improvements to keep customer rates affordable. Highlights of our 2014 operating results compared to 2013 and 2012 include:

	2014	2013	2012
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Income (loss) from discontinued operations, net of tax	$(0.04)	$(0.01)	$(0.09)
Diluted earnings per share	$ 2.35	$ 2.06	$ 2.01

Continuing Operations

Income from continuing operations included 4 cents per diluted share of costs resulting from the Freedom Industries chemical spill in West Virginia in 2014 and included 14 cents per diluted share in 2013 related to a tender offer. Earnings from continuing operations, adjusted for these two items, increased 10%, or 22 cents per share, mainly due to favorable operating results from our Regulated Businesses segment due to higher revenues and lower operating expenses, partially offset by higher depreciation expenses. Also contributing to the overall increase in income from continuing operations was lower interest expense in 2014 compared to the same period in 2013.

Discontinued operations

In the fourth quarter of 2014, we sold our Terratec line of business, which was part of our Market-Based Operations segment. The loss from discontinued operations, net of tax reflected in the 2014 financial results includes the loss on the sale, an income tax valuation allowance and the 2014 operating results of the entity prior to the sale.

Also, as part of our portfolio optimization initiative, the sales of our regulated subsidiaries in Arizona, New Mexico and Ohio were completed during 2012. Discontinued operations include the gain/loss on sale, as well as the operating results of these subsidiaries.

See "Consolidated Results of Operations and Variances" and "Segment Results" below for further detailed discussion of the consolidated results of operations, as well as our business segments. All financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") reflects continuing operations, unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

Making Efficient Use of Capital

We invested approximately $1 billion and $950 million in Company-funded capital improvements in 2014 and 2013, respectively. These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth and ensure system reliability, security and quality of service. The need for continuous investment presents a challenge as we work to balance investment needs with customer affordability. In addition, the potential for regulatory lag, or the delay in recovering operating expenses may impact the level of our capital investments.

Expanding Markets and Developing New Offerings

During 2014, our Regulated Businesses completed the purchase of five regulated water systems, five regulated wastewater systems and three regulated water and wastewater systems. These acquisitions added approximately 2,100 water customers and 2,400 wastewater customers to our regulated operations. During 2014, our Military Services Group within our Market-Based Operations segment was awarded two U.S. military contracts. In January 2014, it was awarded a contract for operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. In August 2014, the Military Services Group was awarded a contract for operation and maintenance of the water and wastewater systems at Picatinny Arsenal in New Jersey. During 2014, our Homeowners Services Group ("HOS") began offering its water and sewer line protection programs in eight new states. Additionally, Orlando Utilities Commission ("OUC") awarded HOS a contract to be OUC's exclusive provider of service line protection programs. This contract enables HOS to market its water line, sewer line, in-home plumbing, interior electric, surge, commercial water line and commercial sewer line protection programs to OUC's 234,000 customers. In 2014, HOS also launched its interior electric program and continued to develop new products and services to better meet customer needs.

On November 4, 2014 voters in Haddonfield, New Jersey, Arnold, Missouri and Russiaville, Indiana approved referendums for us to purchase their water and/or wastewater assets. Following regulatory approval and financial close, these three acquisitions will add approximately 19,000 customers to the company's regulated footprint. Additionally, in February, 2015 our Illinois subsidiary entered into an agreement to purchase the City of Mt. Vernon's water and wastewater systems, which serves about 6,600 customer connections.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our O&M efficiency ratio during 2014. Our O&M efficiency ratio was 36.7% for the year ended December 31, 2014 compared to 38.5% and 40.7% for the years ended December 31, 2013 and 2012, respectively. The improvement in our 2014 O&M efficiency ratio in 2014 was principally attributable to the increase in our Regulated Businesses' revenues as well as a decrease in adjusted O&M expenses compared to the same period in 2013.

Our O&M efficiency ratio (a non-GAAP measure) is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also excluded from operating revenues and O&M expenses the impact from weather and the West Virginia Freedom Industries chemical spill. Additionally, from the O&M expenses, we exclude the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other lines in the Statement of Operations.

Management believes that this calculation better reflects the Regulated Businesses segment's O&M efficiency ratio. We evaluate our operating performance using this measure, as it is the primary measure of the efficiency of our regulated operations. This information is intended to enhance an investor's overall understanding of our operating performance. O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies' operating measures or deemed more useful than the GAAP information provided elsewhere in this report. The following table provides a reconciliation between operation and maintenance expense and operating revenues, as determined in accordance with GAAP, and to those amounts utilized in the calculation of our O&M efficiency ratio for the years ended December 31, 2014, 2013 and 2012:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure)

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Total O&M expense	$1,349,864	$1,289,081	$1,329,500
Less:			
O&M expense—Market-Based Operations	289,395	240,610	256,269
O&M expense—Other	(51,038)	(56,973)	(56,755)
Total Regulated O&M expense	1,111,507	1,105,444	1,129,986
Less:			
Regulated purchased water expense	121,301	111,119	110,173
Allocation of internal O&M costs	38,985	34,635	35,067
Impact of West Virginia Freedom Industries chemical spill	10,438	—	—
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)	4,700
Adjusted Regulated O&M expense (a)	$ 942,545	$ 961,377	$ 980,046
Total Operating Revenues	$3,011,328	$2,878,936	$2,853,926
Less:			
Operating revenues—Market-Based Operations	354,679	302,541	307,366
Operating revenues—Other	(17,680)	(17,523)	(17,874)
Total Regulated operating revenues	2,674,329	2,593,918	2,564,434
Less:			
Regulated purchased water expense*	121,301	111,119	110,173
Plus:			
Impact of West Virginia Freedom Industries chemical spill	1,012	—	—
Estimated impact of weather (mid-point of range)	16,785	15,625	(47,400)
Adjusted Regulated operating revenues (b)	$2,570,825	$2,498,424	$2,406,861
Regulated O&M efficiency ratio (a)/(b)	36.7%	38.5%	40.7%

* Note calculation assumes purchased water revenues approximate purchased water expenses.

Addressing Regulatory Lag

In 2014, additional annualized revenues from general rate cases amounting to $43.7 million, including step increases totaling $5.7 million, became effective. Also, in 2014, we were granted $34.6 million in additional annualized revenues, assuming constant sales volume, from infrastructure charges in several of our states.

On November 21, 2014, we reached a stipulation and settlement agreement related to our rate case with the Indiana Office of the Utility Consumers Counselor. This agreement was submitted to the Indiana Utility Regulatory Commission for consideration. On January 28, 2015, the PUC issued their order which provides additional annualized revenues totaling $5.1 million effective as of January 29, 2015.

On February 19, 2014, the Company, the Office of Ratepayer Advocate and other intervenors submitted an amended settlement of $24.0 million that includes a test year 2015 revenue requirement increase of $12.7 million from the July 2013 filing date. The settlement also provides for escalation and attrition adjustments in 2016 and 2017 of $5.0 million and $6.3 million, respectively. The agreement is pending regulatory approval and is subject to change.

On October 29, 2014, our Tennessee subsidiary filed for additional annualized revenues from infrastructure charges in the amount of $2.4 million, as adjusted.

In the fourth quarter of 2014, we filed two general rate cases. On November 14, 2014, our Kentucky subsidiary filed a general wastewater rate case requesting an additional $0.1 million in annualized revenues. On December 19, 2014, our Maryland subsidiary filed a general rate case requesting an additional $0.8 million in annualized revenues.

On January 9, 2015, our New Jersey subsidiary filed a general rate case requesting additional annualized revenues of $66.2 million. Additionally, annualized revenues of $9.4 million and $6.4 million resulting in infrastructure charges in our New Jersey and Illinois subsidiaries, respectively, became effective in 2015.

In total, as of February 20, 2015, we are awaiting final orders in four states requesting additional annualized revenues of approximately $91.1 million, for general rate cases, and the $2.4 million in additional annualized revenues in Tennessee for infrastructure charges.

Other matters

West Virginia Event

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked 4-methylcyclohexane methanol, or MCHM, and PPH/DiPHH, a mix of polyglycol ethers, into the Elk River near the WVAWC treatment plant in Charleston, West Virginia. As a result of this event, income after income taxes for the twelve months ended December 31, 2014 was reduced by $7.0 million or $0.04 per share. See Part I, Item 3, “Legal Proceedings” in this report for information regarding litigation and an investigation by the Public Service Commission of West Virginia relating to the Freedom Industries chemical spill. The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries chemical spill, and the Company, WVAWC and other Company affiliates have valid, meritorious defenses to the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

2015 and Beyond

Our future results are anchored on five central themes with customers at the center of all we do. These five central themes are:

Customers

- Our focus continues to concentrate on our customers by achieving customer satisfaction and service quality targets. In addition, we will continue to balance our infrastructure investment needs with the affordability impact on customer bills.

Safety

- Our focus continues on driving safety in everything that we do. Our safety focus includes safety of employees, customers and the public. We have made safety a core value of our company.

People

- Our focus on employees and our culture is paramount to our success going forward. We intend to focus on ensuring we have strong relationships with our union represented employees, effective training and development and diversity of our workforce.

Growth

- We expect to invest $6 billion over the next five years, with $1.2 billion in 2015, as follows:
    - Capital investment to improve infrastructure in our Regulated Businesses of $5.2 billion, with $1.1 billion expected in 2015.
    - Growth from acquisitions in our Regulated Businesses to expand our water and wastewater customer base of $540 million.
    - Growth in our Market-Based businesses from new core growth, expanded markets and new offerings, and evaluate potential opportunities to assist the shale industry in the delivery of water to support their processes. We have estimated strategic capital of $230 million.

Technology & Operational Efficiency

- Continued commitment to operational efficiency, technology innovation and environmental stewardship. We intend to continue to modernize our infrastructure and focus on operational efficiencies, while bolstering a culture of continuous improvement. We have set a goal to achieve an O&M efficiency ratio equal to or below 34% by 2020. In regards to environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage.

We are committed to operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces value for our shareholders. We are committed to an ongoing strategy that leverages processes and technology innovation to make ourselves more effective and efficient.

Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Operating revenues	$3,011,328	$2,878,936	$2,853,926
Operating expenses			
Operation and maintenance	1,349,864	1,289,081	1,329,500
Depreciation and amortization	424,084	406,717	380,402
General taxes	236,732	234,198	220,758
(Gain) loss on asset dispositions and purchases	(1,928)	624	(838)
Total operating expenses, net	2,008,752	1,930,620	1,929,822
Operating income	1,002,576	948,316	924,104
Other income (expenses)			
Interest, net	(297,818)	(308,164)	(310,794)
Loss on extinguishment of debt	—	(40,583)	—
Allowance for other funds used during construction	9,440	12,639	15,592
Allowance for borrowed funds used during construction	5,838	6,377	7,771
Amortization of debt expense	(7,026)	(6,603)	(5,358)
Other, net	(3,196)	(4,045)	(926)
Total other income (expenses)	(292,762)	(340,379)	(293,715)
Income from continuing operations before income taxes	709,814	607,937	630,389
Provision for income taxes	279,973	237,093	256,787
Income from continuing operations	429,841	370,844	373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	$ 423,108	$ 369,264	$ 358,070
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $(29,487), $46,974 and $(16,894), respectively	$ (46,119)	$ 73,472	$ (26,425)
Pension amortized to periodic benefit cost:			
Prior service cost, net of tax of $106, $111 and $113, respectively	166	174	176
Actuarial (gain) loss, net of tax of $(19), $5,697 and $4,668, respectively	(31)	8,911	7,301
Foreign currency translation adjustment	(458)	(1,001)	434
Unrealized loss on cash flow hedge, net of tax of $(428)	(791)	—	—
Other comprehensive income (loss)	(47,233)	81,556	(18,514)
Comprehensive income	$ 375,875	$ 450,820	$ 339,556
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Diluted earnings per share: (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01
Average common shares outstanding during the period			
Basic	178,888	177,814	176,445
Diluted	179,806	179,056	177,671
Dividends declared per common share	$ 1.24	$ 1.12	$ 0.98

(a) Amounts may not sum due to rounding.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues. Consolidated operating revenues for the year ended December 31, 2014 increased $132.4 million, or 4.6%, compared to the same period in 2013. This increase is the result of higher revenues in our Regulated Businesses of $80.4 million, which was mainly attributable to rate increases, incremental revenues from surcharges and balancing accounts and acquisitions partially offset by reduced consumption in 2014. Also contributing to the higher revenue was a $52.1 million increase in our Market-Based Operations segment. The primary drivers were incremental revenue from contract growth in HOS, and for our military contracts, price redeterminations and increased construction project activity with the largest increase due to the Fort Polk wastewater treatment plant project awarded in late 2013. For further information see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2014 increased $60.8 million, or 4.7%, compared to 2013. The increase is primarily due to an increase in our Market-Based Operations segment of $48.8 million principally as a result of incremental costs related to the increased activity under our military contracts, corresponding with the increased revenue. Also, our Regulated Businesses’ costs increased by $6.1 million principally due to increased production costs, uncollectible expense, maintenance expenses and costs associated with the Freedom Industries chemical spill in West Virginia partially offset by lower employee-related costs. For further information see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $17.4 million, or 4.3%, for the year ended December 31, 2014 compared to the same period in the prior year as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that were placed into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $47.6 million, or 14.0%, for the year ended December 31, 2014 compared to the same period in the prior year. This decrease is principally attributable to the recognition of a pre-tax loss on debt extinguishment in 2013 of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. Also contributing to the decrease was a reduction in interest expense resulting from interest savings as a result of our 2014 and 2013 refinancings, offset by a reduction in allowance for funds used during construction (“AFUDC”) which is mainly attributable to our Customer Information and Enterprise Asset Management systems being placed into service in the second and fourths quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $42.9 million, or 18.1%, to $280.0 million for the year ended December 31, 2014. The effective tax rates for the years ended December 31, 2014 and 2013 were 39.4% and 39.0%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As previously noted, the financial results of our Terratec line of business within our Market-Based Operations segment was classified as discontinued operations for all periods presented. The sale of Terratec was completed in the fourth quarter of 2014. The increase in the loss from discontinued operations, net of tax is primarily related to the after-tax loss recorded on the sale of $2.3 million and lower operating results in 2014 compared to 2013.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Consolidated operating revenues for the year ended December 31, 2013 increased $25.0 million, or 0.9%, compared to the same period in 2012. This increase is the result of higher revenues in our Regulated Businesses of $29.5 million, which was mainly attributable to rate increases partially offset by decreased consumption, primarily related to weather. For further information see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2013 decreased $40.4 million, or 3.0%, compared to 2012. This change was mainly attributable to a $24.5 million decrease in our Regulated Businesses’ costs primarily related to a decrease in employee-related costs, primarily pension and group insurance expense as well as lower preventive maintenance expenses. For further information see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $26.3 million, or 6.9%, for the year ended December 31, 2013 compared to the same period in the prior year as a result of additional utility plant placed in service including our business transformation project, which accounted for $10.8 million of the incremental expense in 2013.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts and other miscellaneous items, increased by $13.4 million, or 6.1%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. This increase was principally due to incremental taxes in the first half of 2013 associated with the properties acquired in our New York acquisition in the second quarter of 2012. Also, 2012 property taxes were lower due to the recognition of credit adjustments in Indiana and Missouri which reduced property tax expense in the third quarter of 2012. Lastly, gross receipts taxes were higher in our New Jersey subsidiary by $3.5 million.

Other income (expenses). Other expenses increased $46.7 million, or 15.9%, for the year ended December 31, 2013 compared to the same period in the prior year. This increase is principally attributable to the recognition of a pre-tax loss on debt extinguishment of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. The loss consisted of a repurchase premium of $39.4 million, transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. Also contributing to the increase was a reduction in allowance for funds used during construction (“AFUDC”) of $4.3 million resulting from decreased construction activities, compared to the same period in 2012, including the winding down of our business transformation project.

Provision for income taxes. Our consolidated provision for income taxes decreased $19.7 million, or 7.7%, to $237.1 million for the year ended December 31, 2013. The effective tax rates for the years ended December 31, 2013 and 2012 were 39.0% and 40.7%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based

Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries.

Segment Results of Operations

We have two operating segments, which are also our reportable segments: the Regulated Businesses and the Market-Based Operations. These segments are determined based on how we assess performance and allocate resources. We evaluate the performance of our segments and allocated resources based on several factors, with the primary measure being income from continuing operations before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Operating revenues	$2,674,329	$2,593,918	$2,564,434
Operation and maintenance expense	1,111,507	1,105,444	1,129,986
Operating expenses, net	1,725,651	1,700,052	1,685,734
Income from continuing operations before income taxes	707,449	654,834	649,117

Operating Revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is subject to state regulation and our results of operations can be impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate. The table below details additional annualized revenues awarded, including step increases and assuming a constant volume, resulting from rate authorizations granted in 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(In millions)		
State			
General Rate Cases:			
Pennsylvania (1)	$—	$26.0	$ —
New Jersey	—	—	30.0
Kentucky (2)	—	6.9	—
Missouri	—	—	24.0
Illinois	—	—	17.9
Indiana	—		1.9
California (3)	1.9	3.5	32.9
West Virginia (4)	—	8.5	—
Virginia(5)	—	—	2.6
Tennessee	—	—	5.2
Iowa(6)	3.8	—	2.8
New York(7)	—	—	5.6
Other	—	0.1	0.2
Total—General Rate Cases	$ 5.7	$45.0	$123.1

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(1) On December 19, 2013, a rate case settlement was approved with an effective date of January 1, 2014. This rate increase combined, in part, wastewater and water rates.

(2) Final order was received on October 25, 2013. The increase approximated the interim rates, net of the reserve that had been recorded since July 27, 2013.

(3) Second and final step increases from the 2012 rate case became effective on April 1, 2013 and April 1, 2014, respectively.

(4) Final order issued on September 26, 2013 by the West Virginia Public Service Commission. New rates were put into effect October 11, 2013.

(5) The new rates provided additional annualized revenues of $2.3 million in 2012 and $4.3 million in 2011 for jurisdictional customers, and $0.3 million in 2013 and $0.5 million in 2011 for non-jurisdictional customers, which are not subject to commission approval.

(6) Effective date of new rates was April 18, 2014. The increase included approximately $2.7 million of interim rates that were effective May 10, 2013.

(7) Amount includes a $3.0 million increase effective April 1, 2012, with the remainder of $1.4 million and $1.2 million becoming effective April 1, 2013 and April 1, 2014, respectively.

The effective dates for the more significant increases granted in 2012 were January 1, 2012, April 1, 2012, May 1, 2012 and October 1, 2012 for our California, Missouri, New Jersey, and Illinois subsidiaries, respectively.

As previously noted, an increasing number of states are permitting rates to be adjusted outside of a general rate case for certain costs, such as mechanisms that permit a return on capital investments to replace aging infrastructure. The following table details additional annualized revenues authorized through infrastructure surcharge mechanisms which were granted in 2014, 2013 and 2012. As these surcharges are typically rolled into the new base rates and therefore are reset to zero when new base rates are effective, certain of these charges may also be reflected in the total general rate case amounts awarded in the table above if the order date was following the infrastructure surcharge filing date:

	Years Ended December 31, 2014	2013	2012
	(In millions)		
*Infrastructure C*harges:			
Pennsylvania [(1)]	$ —	$19.8	$10.5
New Jersey [(2)]	17.5	4.0	—
Missouri [(3)]	12.7	7.9	4.2
Indiana [(4)]	—	3.9	3.7
Illinois [(5)]	2.1	0.5	—
New York [(6)]	1.8	—	—
Other	0.5	—	—
Total—Infrastructure Charges	$34.6	$36.1	$18.4

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(1) Quarterly filings made with PUC. $6.7 million, $3.7 million, $2.9 million and $6.5 million effective October 1, 2013, July 1, 2013, April 1, 2013 and January 1, 2013, respectively. No infrastructure charges in 2014 as a result of general rate case effective January 1, 2014 utilized forecasted test year and therefore qualifying infrastructure improvements already reflected in rates.

(2) Semi-annual filings made with the PUC. $7.4 million, $10.1 million and $4.0 million effective July 1, 2014, January 1, 2014 and July 1, 2013, respectively.

(3) For 2014, $9.0 million and $3.7 million effective December 31, 2014 and May 30, 2014, respectively. For 2013, $5.4 million effective June 21, 2013 and $2.5 million effective December 14, 2013.

(4) Effective December 18, 2013.

(5) $2.1 million effective January 1, 2014 and $0.5 million effective October 1, 2013.

(6) $0.9 million effective January 1, 2014, $0.7 million effective March 3, 2014 and $0.2 million effective April 1, 2014.

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues increased by $80.4 million, or 3.1%, for the year ended December 31, 2014 compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $80.0 million attributable to rate increases, including infrastructure mechanisms, obtained through rate authorizations for a number of our operating companies. Additionally, revenues increased by $10.9 million due to an increase in surcharges and balancing accounts and by approximately $12.6 million attributable to acquisitions. The most significant contributor to the increase in revenues from acquisitions was Dale Service Corporation ("Dale"), which was acquired by our Virginia Subsidiary in the fourth quarter of 2013. Partially offsetting these increases was a decrease in revenues of approximately $27.0 million as a result of lower demand.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,515,049	$1,465,174	$ 49,875	3.4%	176,975	180,976	(4,001)	(2.2%)
Commercial	550,124	520,875	29,249	5.6%	81,564	80,392	1,172	1.5%
Industrial	131,834	118,939	12,895	10.8%	39,833	37,107	2,726	7.3%
Public and other	333,048	312,369	20,679	6.6%	52,710	51,009	1,701	3.3%
Other water revenues	26,377	17,546	8,831	50.3%	—	—	—	—
Billed water services	2,556,432	2,434,903	121,529	5.0%	351,082	349,484	1,598	0.5%
Unbilled water services	(25,419)	30,142	(55,561)	(184.3%)				
Total water revenues	2,531,013	2,465,045	65,968	2.7%				
Wastewater revenues	93,067	82,831	10,236	12.4%				
Other revenues	50,250	46,043	4,207	9.1%				
	$2,674,330	$2,593,919	$ 80,411	3.1%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2014 totaled $2,531.0 million, a $66.0 million increase, or 2.7%, over the same period of 2013. As described above, the increases are primarily due to rate increases, infrastructure surcharges, amortization of balancing accounts and recent acquisitions. Also, it should be noted that the mix between billed revenues and unbilled revenues has changed. This is principally the result of the implementation of our Customer Information System ("CIS") as part of Phase II of our business transformation project. At December 31, 2013, unbilled revenues were significantly higher than historical levels due to billing delays in certain accounts. During the first quarter of 2014, we addressed a majority of these delayed billings. Therefore, as a result, the unbilled water revenues decreased by $55.6 million with corresponding increases in billed revenues.

Wastewater services—Our subsidiaries provide wastewater services in 11 states. Revenues from these services increased $10.2 million, or 12.4%, compared to the year ended December 31, 2013. The increase was primarily attributable to incremental revenues resulting from acquisitions, most notably the Dale acquisition in the fourth quarter of 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $4.2 million, or 9.1%, compared to the year ended December 31, 2013. The increase in revenues for the year ended December 31, 2014, as compared to the same period in the prior year, was mainly due to $2.4 million in insurance proceeds for business interruption as a result of Hurricane Sandy in addition to an increase in late payment fees.

Operation and maintenance expense. Operation and maintenance expense increased $6.1 million, or 0.5%, for the year ended December 31, 2014, compared to the year ended December 31, 2013. Operation and maintenance expense for 2014 and 2013, by major expense category, was as follows:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 289,168	$ 271,181	$ 17,987	6.6%
Employee-related costs	429,878	455,690	(25,812)	(5.7%)
Operating supplies and services	216,154	215,702	452	0.2%
Maintenance materials and supplies	68,027	65,853	2,174	3.3%
Customer billing and accounting	61,459	52,625	8,834	16.8%
Other	46,821	44,393	2,428	5.5%
Total	$1,111,507	$1,105,444	$ 6,063	0.5%

Production costs including fuel and power, purchased water, chemicals and waste disposal costs increased by $18.0 million, or 6.6%, for 2014 compared to 2013. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$121,301	$111,119	$10,182	9.2%
Fuel and power	92,011	86,337	5,674	6.6%
Chemicals	45,930	47,901	(1,971)	(4.1%)
Waste disposal	29,926	25,824	4,102	15.9%
Total	$289,168	$271,181	$17,987	6.6%

Overall production costs increased for the year ended December 31, 2014 compared to the prior year as a result of increases in purchased water, fuel and power costs and waste disposal. Partially offsetting these increases was a decrease in chemicals due to a $1.8 million reversal of chemical expense resulting from a favorable litigation settlement. The purchased water increases principally reflect increased prices in our California subsidiary and, to a lesser extent, price increases in our Illinois subsidiary. Fuel and power costs increased due to higher supplier prices in several of our operating facilities as well as incremental costs as a result of the Dale acquisition in the fourth quarter of 2013. The increase in waste disposal costs was principally due to an increase in the amount allowed by a cost recovery mechanism in one of our operating companies and the Dale acquisition. Also contributing to the increase was incremental costs associated with the Freedom Industries chemical spill in West Virginia.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $25.8 million, or 5.7%, for 2014 compared to 2013. These employee-related costs represented 38.7% and 41.2% of operation and maintenance expense for 2014 and 2013, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$328,329	$323,022	$ 5,307	1.6%
Pensions	26,805	48,374	(21,569)	(44.6%)
Group insurance	55,196	65,872	(10,676)	(16.2%)
Other benefits	19,548	18,422	1,126	6.1%
Total	$429,878	$455,690	$(25,812)	(5.7%)

The overall decrease in employee-related costs for the year ended December 31, 2014, compared to 2013, was primarily due to a reduction in pension costs and postretirement benefit costs (which is included in group insurance expenses). These decreases are principally due to the change in assumptions used for the discount rate, which in turn resulted in decreased contributions. The decrease in contributions occurred at those regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Partially offsetting these decreases was an increase in salaries and wages expense as a result of annual wage increases and increased overtime expense attributable to an increased number of main breaks as a result of the harsh winter weather conditions and increases in severance expense as a result of the restructuring of certain functions, offset by a reduction in incentive compensation due to a lower than expected payout for the 2013 incentive period as well as higher capitalization rates as a result of increased capital projects.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs remained relatively unchanged with an increase of $0.5 million, or 0.2%, for the year ended December 31, 2014 compared to the same period in 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 88,466	$ 93,744	$(5,278)	(5.6%)
Office supplies and services	45,224	45,272	(48)	(0.1%)
Transportation	19,749	20,620	(871)	(4.2%)
Rents	15,339	15,830	(491)	(3.1%)
Other	47,376	40,236	7,140	17.7%
Total	$216,154	$215,702	$ 452	0.2%

The increase in other operating supplies and services was primarily offset by a decrease in contracted services. Other operating supplies and services increased as a result of a $2.2 million increase in customer education and communication in California related to community relations and Measure “0” and an $0.8 million increase in conservation expense as well as the inclusion in 2013 of $1.6 million of insurance proceeds for the recovery of expenses related to Hurricanes Irene and Sandy and an increase in legal expenses. The decrease in contracted services is primarily the result of the completion of our business transformation project, consisting of the roll-out of our Enterprise Asset Management system and CIS, which required the use of additional contracted services in 2013. These decreases were partially offset by increases resulting from the Freedom Industries chemical spill in West Virginia.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, increased $2.2 million, or 3.3%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance materials and supplies	$68,027	$65,853	$2,174	3.3%

The increase for the year ended December 31, 2014, compared to the same period in 2013, is primarily due to increases in paving, backfilling and other repair costs, most of which are from the higher than normal main breaks in the first quarter of 2014 due to the abnormally harsh winter weather conditions experienced throughout our operating areas.

Customer billing and accounting expenses increased by $8.8 million, or 16.8%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$35,027	$26,443	$8,584	32.5%
Postage	13,793	12,757	1,036	8.1%
Other	12,639	13,425	(786)	(5.9%)
Total	$61,459	$52,625	$8,834	16.8%

The increase for 2014 is primarily due to incremental uncollectible expense associated with an increase in customer accounts receivable attributable to the overall aging of receivables as well as rate increases. We believe the change in our aging of receivables in 2014 is the result of temporary changes we made in our collection process in connection with the implementation of our new CIS in 2013, including Phase II which occurred in the fourth quarter of 2013.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. These costs increased by $2.4 million, or 5.5%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$41,067	$35,406	$ 5,661	16.0%
Regulatory expenses	5,754	8,987	(3,233)	(36.0%)
Total	$46,821	$44,393	$ 2,428	5.5%

The increase for the year ended December 31, 2014, compared to the year ended December 31, 2013, is primarily due to an increase in our expected premiums, principally due to incremental claims associated with the Freedom Industries chemical spill in West Virginia, net of favorable forecasted experience for existing claims. These premiums are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature. The increase in insurance costs is partially offset by lower regulatory expenses in one of our operating subsidiaries compared to the same period in the prior year.

Operating expenses. The increase in operating expenses for the year ended December 31, 2014 is principally due to the higher operation and maintenance expenses explained above and higher depreciation and amortization expense of $18.2 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including CIS and our Enterprise Asset Management system.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues increased by $29.5 million, or 1.1%, for the year ended December 31, 2013 compared to the same period in 2012. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $72.4 million. Additionally revenues increased by $16.4 million due to increased surcharge and amortization of balancing accounts. Lastly, revenues were higher by $9.9 million as a result of acquisitions, with the most significant being the result of our New York acquisition in the second quarter of 2012 (additional four months of revenue in 2013 compared to 2012) and the acquisition of Dale by our Virginia subsidiary in the fourth quarter of 2013. These increases were partially offset by decreased revenues of approximately $64.5 million as a result of lower demand, principally driven by the hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler and wetter weather conditions in 2013.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,465,174	$1,465,803	$ (629)	(0.0%)	180,976	188,927	(7,951)	(4.2%)
Commercial	520,875	518,253	2,622	0.5%	80,392	84,226	(3,834)	(4.6%)
Industrial	118,939	121,902	(2,963)	(2.4%)	37,107	39,429	(2,322)	(5.9%)
Public and other	312,369	321,593	(9,224)	(2.9%)	51,009	54,202	(3,193)	(5.9%)
Other water revenues	17,546	16,992	554	3.3%	—	—	—	—
Billed water services	2,434,903	2,444,543	(9,640)	(0.4%)	349,484	366,784	(17,300)	(4.7%)
Unbilled water services	30,142	4,484	25,658	572.2%				
Total water revenues	2,465,045	2,449,027	16,018	0.7%				
Wastewater revenues	82,831	78,168	4,663	6.0%				
Other revenues	46,043	42,547	3,496	8.2%				
	$2,593,919	$2,569,742	$24,177	0.9%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2013 totaled $2,465.0 million, a $21.3 million increase, or 0.9%, over the same period of 2012. However, the mix between billed revenues/billed volumes to unbilled revenues/unbilled volumes changed significantly principally as a result of our CIS implementation. Unbilled revenue increased $25.7 million compared to the same period in the prior year mainly as a result of delayed invoicing to customers. With the implementation, we made a decision to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As such bills that exceed certain tolerance levels are being held until verification can be performed. As such, the timing of issuance of bills has caused a decrease in billed volumes in 2013 when compared to 2012, with a corresponding increase in unbilled usage. For our residential and commercial customers, we believe that the majority of the decline in billed volumes was attributable to the weather abnormalities between 2012 and 2013 as well as the implementation of our new CIS system by our regulated subsidiaries. For the remaining customer classes, we believe the decline in billed volumes was mainly due to the delay in invoicing the customer as a result of our CIS implementation.

Wastewater services—Our subsidiaries provide wastewater services in ten states. Revenues from these services increased by $4.7 million, or 6.0%, to $82.8 million for the year ended December 31, 2013, from the same period of 2012. The increase was primarily attributable to rate increases in our Pennsylvania subsidiary as well as the Dale acquisition in November, 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $3.5 million, or 8.2%, compared to the year ended December 31, 2012. The increase in revenues for the year ended December 31, 2013, as compared to the same period in the prior year, was mainly due to the additional surcharge revenues offset by decreases in revenues related to billings for others, reconnection and late fees.

Operation and maintenance. Operation and maintenance expense decreased $24.5 million, or 2.2%, for the year ended December 31, 2013, compared to the year ended December 31, 2012. Operation and maintenance expense for 2013 and 2012, by major expense category, was as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 271,181	$ 274,775	$ (3,594)	(1.3%)
Employee-related costs	455,690	472,075	(16,385)	(3.5%)
Operating supplies and services	215,702	210,947	4,755	2.3%
Maintenance materials and supplies	65,853	81,062	(15,209)	(18.8%)
Customer billing and accounting	52,625	49,257	3,368	6.8%
Other	44,393	41,870	2,523	6.0%
Total	$1,105,444	$1,129,986	$(24,542)	(2.2%)

Production costs including fuel and power, purchased water, chemicals and waste disposal costs decreased by $3.6 million, or 1.3%, for 2013 compared to 2012. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$111,119	$110,173	$ 946	0.9%
Fuel and power	86,337	89,282	(2,945)	(3.3%)
Chemicals	47,901	49,334	(1,433)	(2.9%)
Waste disposal	25,824	25,986	(162)	(0.6%)
Total	$271,181	$274,775	$(3,594)	(1.3%)

Overall, production costs decreased for the year ended December 31, 2013 compared to the prior year as a result of reductions in chemical and fuel and power costs resulting from decreased usage mainly attributable to lower consumption in most of our states.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $16.4 million, or 3.5%, for 2013 compared to 2012. These employee-related costs represented 41.2% and 41.8% of operation and maintenance expense for 2013 and 2012, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$323,022	$326,370	$ (3,348)	(1.0%)
Pensions	48,374	56,299	(7,925)	(14.1%)
Group insurance	65,872	71,103	(5,231)	(7.4%)
Other benefits	18,422	18,303	119	0.7%
Total	$455,690	$472,075	$(16,385)	(3.5%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was mainly the result of lower employee incentive and stock compensation expense of approximately $5.9 million in addition to higher capitalization rates, due to increased capital investment, and a reduction in headcount partially offset by increased overtime and annual wage increases. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. The reduction in group insurance expense is mainly attributable to higher capitalization rates and reduced headcount.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $4.8 million, or 2.3%, for the year ended December 31, 2013 compared to the same period in 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
		(Dollars in thousands)		
Contracted services	$ 93,744	$ 87,675	$ 6,069	6.9%
Office supplies and services	45,272	49,354	(4,082)	(8.3%)
Transportation	20,620	22,917	(2,297)	(10.0%)
Rents	15,830	16,943	(1,113)	(6.6%)
Other	40,236	34,058	6,178	18.1%
Total	$215,702	$210,947	$ 4,755	2.3%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. These increases were mainly due to incremental costs attributable to the continued maturity of our Enterprise Resource Planning system in conjunction with the implementation of Phase I and Phase II of our business transformation project. Additionally, contracted services increased due to the use of contractors for other specific projects. Other increases in the other operating supplies and services costs are related to a $1.3 million increase in condemnation costs and a $1.2 million increase in conservation expense as well as the inclusion in 2012 of a $1.0 million reduction in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy and a $2.1 million credit adjustment resulting from the finalization of rate decisions in California and are offset by $1.6 million of insurance proceeds related to recovery of expenses related to Hurricanes Irene and Sandy received in 2013. The decrease in office supplies and services is due to cost containment efforts primarily related to employee travel. Transportation costs decreased due to the reduction of leased vehicles.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, decreased $15.2 million, or 18.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
		(Dollars in thousands)		
Maintenance materials and supplies	$65,853	$81,062	$(15,209)	(18.8%)

The decrease of $15.2 million in 2013 is mainly attributable to 2012 including increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $3.4 million, or 6.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$26,443	$22,541	$3,902	17.3%
Postage	12,757	12,694	63	0.5%
Other	13,425	14,022	(597)	(4.3%)
Total	$52,625	$49,257	$3,368	6.8%

The increase in the uncollectible accounts expense was primarily due to an increase in our Regulated Businesses' customer accounts receivable attributable to rate increases and an increase in the overall aging of receivables due to our CIS implementation.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $2.5 million, or 6.0%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$35,406	$31,883	$ 3,523	11.0%
Regulatory expenses	8,987	9,987	(1,000)	(10.0%)
Total	$44,393	$41,870	$ 2,523	6.0%

Insurance costs in 2013 were higher, compared to 2012, primarily due to higher casualty insurance costs as a result of historical claims experience and retroactive adjustments.

Operating expenses. The increase in operating expenses for the year ended December 31, 2013 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $26.3 million and higher general tax expense of $12.4 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including $10.8 million of incremental expense resulting from the assets placed in service for our business transformation project. The increase in general tax expense is primarily due to higher property taxes in our New York subsidiary due to a full year of expense in 2013 on properties acquired in the second quarter of 2012 of $5.2 million, the inclusion of property tax adjustments that reduced expense for our Indiana and Missouri subsidiaries by $4.0 million in 2012, and higher 2013 gross receipts taxes in our New Jersey subsidiary of $3.5 million.

Market-Based Operations Segment

The following table provides certain financial information for our Market-Based Operations segment for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Operating revenues	$354,679	$302,541	$307,366
Operation and maintenance expense	289,395	240,610	256,268
Operating expenses, net	299,549	252,302	266,005
Income from continuing operations before income taxes	57,539	53,104	44,948

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues. The increase in revenues for the year ended December 31, 2014, compared to the same period in 2013, is primarily attributable to incremental Military Service Group revenues of $39.4 million mainly from an increase in construction project activities for our military contracts and an increase in our Homeowners Services Group ("HOS") revenues of approximately $16.2 million principally the result of contract growth, mainly though our New York City contracts, as well as expansion into other geographic areas and price increases for certain existing customers. Partially offsetting these increases was a reduction of our Contract Operations Group (ConOp) revenues attributable to the termination of certain municipal and industrial operations and maintenance contracts. Additionally, included in the 2013 Military Service Group revenues was $5.4 million in retroactive price redeterminations for several of our military contracts.

Operation and Maintenance. Operation and maintenance expense increased $48.8 million, or 20.3%, for the year ended December 31, 2014, compared to the year ended December 31, 2013.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 34,691	$ 36,753	$ (2,062)	(5.6%)
Employee-related costs	62,201	60,392	1,809	3.0%
Operating supplies and services	138,531	97,887	40,644	41.5%
Maintenance materials and supplies	47,324	41,107	6,217	15.1%
Other	6,648	4,471	2,177	48.7%
Total	$289,395	$240,610	$48,785	20.3%

As noted in the table above, the primary factor contributing to the overall increase was an increase in operating supplies and services. This increase is mainly attributable to the increase in construction project activities under our military contracts and corresponds with the incremental revenues. Another factor contributing to this increase was the inclusion in 2013 of the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Maintenance materials and supplies increased primarily due to higher HOS repair costs, which is attributable to the increase in the number of contracts.

Operating expense. The increase in operating expenses for the year ended December 31, 2014 is primarily driven by the increase in operation and maintenance expense explained above.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Revenues decreased $4.8 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to lower revenues of $14.4 million resulting from the termination of certain municipal and industrial operations and maintenance contracts, most of which occurred in 2012. Additionally, revenues from construction project activities associated with military construction contracts decreased $8.4 million, due to lower levels of work as compared to the prior year. These decreases were offset by a net increase of $4.0 million from price redeterminations for several of our military contracts as well as an increase of $16.6 million in our HOS revenues associated with contract growth, most notably in New York City.

Operation and maintenance. Operation and maintenance expense decreased $15.7 million, or 6.1%, for the year ended December 31, 2013, compared to the year ended December 31, 2012.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 36,753	$ 42,153	$ (5,400)	(12.8%)
Employee-related costs	60,392	64,711	(4,319)	(6.7%)
Operating supplies and services	97,887	105,082	(7,195)	(6.8%)
Maintenance materials and supplies	41,107	36,135	4,972	13.8%
Other	4,471	8,188	(3,717)	(45.4%)
Total	$240,610	$256,269	$(15,659)	(6.1%)

As noted in the table above, decreases in operating supplies and services, production costs and employee-related costs were partially offset by an increase in maintenance materials and supplies. The decrease in production costs and employee-related costs is mostly due to the termination of certain municipal and industrial operations and maintenance contracts. The decrease in operating supplies and services is attributable to the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Additionally, 2013 was impacted by decreased construction project activity for our military contracts and is partially offset by increased HOS contracted services expense as well as higher printing and postage costs associated with expanding into new markets, including New York City. The increase in maintenance materials and supplies is primarily due to higher HOS repair costs, which is attributable to new contracts, an increase in the number of claims, as well as the average cost per claim and is partially offset by the terminated municipal and industrial operations and maintenance contracts. The decrease in the other category is mainly due to decreases in uncollectible accounts expense of $3.5 million, which is due to 2012 including incremental amounts related to terminated contracts in addition to improved collection experience in 2013 for certain other municipal and industrial operations and maintenance contracts.

Operating expense. The decrease in operating expenses for the year ended December 31, 2013 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Liquidity and Capital Resources

We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures. Our business is very capital intensive and requires significant capital resources. A majority of these capital resources are provided by internally generated cash flows from operations. When necessary, we obtain additional funds from external sources in the debt and equity capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general, as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to an unsecured revolving credit facility with aggregate bank commitments of $1.25 billion. We rely on this revolving credit facility and the capital markets to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. Disruptions in the credit markets may discourage lenders from extending the terms of such commitments or agreeing to new commitments. Market disruptions may also limit our ability to issue debt and equity securities in the capital markets. See "—Credit Facility and Short-Term Debt." In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. AWCC had no outstanding borrowings and $38.0 million of outstanding letters of credit under its credit facility as of December 31, 2014. As of December 31, 2014, AWCC had $1.25 billion available under the credit facility that we could use to fulfill our short-term liquidity needs, to issue letters of credit and support our $450.0 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

In addition, our regulated operating companies receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from the rate base. Generally, we depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use our capital resources, including cash, to (i) fund operating and capital requirements, including construction expenditures, (ii) pay off maturing debt, (iii) pay dividends, (iv) fund pension and postretirement welfare obligations and (v) invest in new and existing ventures. We spend a significant amount of cash on construction projects that we expect to have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. See “Business—Regulation—Economic Regulation.” We expect to fund future maturities of long-term debt through a combination of external debt and to the extent available cash flows from operations. Since we continue to make investments equal to or greater than our cash flows from operating activities, we have no plans to reduce debt significantly.

We believe that our ability to access the capital markets, our revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term requirements. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and to the extent necessary, our revolving credit facility. We believe we have sufficient liquidity and ability to manage our expenditures should there be a disruption of the capital and credit markets.

In addition, the Company can delay major capital investments or other funding requirements or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by, among other things, economic utility regulation; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; weather and seasonality; and overall economic conditions.

Cash flows from operating activities have been a reliable, steady source of funding, sufficient to meet operating requirements, make our dividend payments and fund a portion of our capital expenditure requirements. We will seek access to debt and equity capital markets to meet the balance of our capital expenditure requirements as needed. There can be no assurance that we will be able to access such markets successfully on favorable terms or at all. Operating cash flows can be negatively affected by changes in our rate regulated environments or changes in our customers’ economic outlook and ability to pay for service in a timely manner. We can provide no assurance that our customers’ historical payment pattern will continue in the future.

The following table provides a summary of the major items affecting our cash flows from operating activities for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Net income	$ 423,108	$ 369,264	$ 358,070
Add (subtract):			
Non-cash activities (1)	722,871	761,772	688,126
Changes in working capital (2)	3,503	(137,374)	38,812
Pension and postretirement healthcare contributions	(52,195)	(97,500)	(129,410)
Net cash flows provided by operations	$1,097,287	$ 896,162	$ 955,598

(1) Includes depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenues, taxes receivable (including income taxes), other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address the timing issue through the aforementioned liquidity funding mechanisms.

The increase in cash flows from operations for the year ended December 31, 2014 compared to the same period in 2013 is principally due to the improvement in the cash collections of our Regulated Businesses' accounts receivable, some of which were unbilled at December 31, 2013. Cash collections in 2013 for our Regulated Businesses' accounts receivable were slower than historical payment patterns, mainly due to the implementation of our CIS system in May 2013. We believe the slowdown in collections is the result of the system implementation and therefore is temporary in nature. We implemented the CIS system in our remaining Regulated Businesses in October 2013 and we have experienced a similar slowdown in cash collections for these operating companies in 2014.

The decrease in cash flows from operations for the year ended December 31, 2013 compared to the same period in 2012 is principally due to changes in working capital, which is related to the aforementioned delays in billing and slower collections in our accounts receivable in our Regulated Businesses and the change in payables in 2013, as we were delayed in 2012 in executing payables at normal volumes due to the implementation of Phase I of our business transformation project. Partially offsetting these working capital decreases was a reduction in the pension and postretirement healthcare contributions in 2013.

The Company expects to make pension and postretirement benefit contributions to the plan trusts of $54.5 million in 2015, of which $6.1 million was already made in 2015. In addition, we estimate that contributions will amount to $55.6 million in 2016, $52.7 million in 2017, $56.7 million in 2018 and $66.3 million in 2019. Actual amounts contributed could change materially from these estimates as a result of changes in assumptions and actual investment returns.

Cash Flows from Investing Activities

Cash flows used in investing activities were as follows for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Net capital expenditures	$ (956,119)	$ (980,252)	$(928,574)
Proceeds from sale of assets and securities	13,841	918	561,739
Acquisitions	(8,935)	(23,658)	(44,560)
Other investing activities, net [1]	(62,776)	(50,302)	29,039
Net cash flows used in investing activities	$(1,013,989)	$(1,053,294)	$(382,356)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash flows used in investing activities increased in 2014 compared to 2013 primarily due to an increase in our capital expenditures for the year ended December 31, 2014 principally as a result of incremental spending associated with the replacement of our transmission and distribution infrastructure.

Our infrastructure investment plan consists of both infrastructure renewal programs, where we replace infrastructure as needed, and major capital investment projects, where we construct new water and wastewater treatment and delivery facilities to meet new customer growth and water quality regulations. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

While capital expenditures were $956.1 million, total capital investment amounted to $1.0 billion. The following table provides a summary of our historical capital expenditures related to upgrading our infrastructure and systems:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Transmission and distribution	$462,706	$435,449	$343,640
Treatment and pumping	96,535	89,278	138,072
Services, meter and fire hydrants	170,470	178,412	171,855
General structures and equipment	142,193	131,446	104,854
Business transformation project	8,379	59,746	107,049
Sources of supply	30,916	50,013	44,602
Wastewater	44,920	35,908	18,502
Total capital expenditures	$956,119	$980,252	$928,574

Capital expenditures for the year ended December 31, 2014, decreased by $24.1 million or 2.5% compared to 2013, principally due to the completion of Phase I and Phase II of our business transformation project.

Capital expenditures for the year ended December 31, 2013, increased by $51.7 million or 5.6% compared to 2012, principally due to our continued replacement of transmission and distribution infrastructure, rehabilitation to storage facilities and dam rehabilitation and increased expenditures related to information systems, and vehicles. Partially offsetting this increase was reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects in 2012 as well as a reduction in our business transformation expenses also due to completion of Phase I of the project in 2012 and the implementation of a portion of Phase II in May 2013.

One avenue to seek growth is through tuck-ins, by helping commissions with troubled water systems as well as other acquisitions that are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions are funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

The following provides a summary of the acquisitions and dispositions affecting our cash flows from investing activities in the years indicated:

2014:

We paid approximately $8.9 million for 13 water and wastewater systems.

We received approximately $1.9 million for the sale of assets and securities.

2013:

We paid approximately $23.7 million for ten water and five wastewater system. These acquisitions added approximately 30,000 customers to our existing regulated footprint. The largest of these acquisitions was the acquisition of the stock of a wastewater system in Virginia with approximately 20,000 customers in November 2013 for a purchase price of $5.1 million (net of cash acquired of $6.9 million) plus assumed liabilities.

We received approximately $0.9 million for the sale of assets and securities.

2012:

We paid approximately $44.6 million for numerous regulated water and wastewater systems in New York, Pennsylvania, Indiana, Missouri and West Virginia, with the largest associated with the acquisition of seven regulated water systems in New York in May 2012 for a purchase price of $36.7 million plus assumed liabilities.

We received approximately $561.7 million from the sale of our assets and securities, including $458.9 million associated with the sale of our Arizona, New Mexico and Ohio regulated subsidiaries.

As previously noted, in 2015, we estimate that our total capital plan is $1.2 billion with approximately $1.1 billion allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth, and $0.1 billion for acquisitions and strategic investment purposes. For years in the foreseeable future beyond 2015, we estimate such investment will be between $1.1 and $1.2 billion per year.

We intend to invest capital prudently to provide essential services to our regulated customer base, while working with regulators in the various states in which we operate to have the opportunity to earn an appropriate rate of return on our investment and a return of our investment.

Our investing activities could require considerable capital resources which we have generated through operations and attained through financing activities. We can provide no assurances that these resources will be sufficient to meet our expected investment needs and may be required to delay or reevaluate our investment plans.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be funded with customer advances and contributions for construction (net of refunds). This amounted to $26.3 million, $19.3 million and $31.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. As previously noted AWCC is a wholly-owned finance subsidiary of the Company. Based on the needs of our regulated subsidiaries and the Company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the Company. The regulated subsidiaries and the Company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the Company's borrowings are not a source of capital for the regulated subsidiaries, the Company is not able to recover the interest charges on the Company's debt through regulated water and wastewater rates. As of December 31, 2014, AWCC has made long-term fixed rate loans and commercial paper loans to our Regulated Businesses amounting to $3.0 billion and $319.2 million, respectively. Additionally, as of December 31, 2014, AWCC has made long-term fixed rate loans and commercial paper loans to the Company totaling $979.9 million and $130.8 million to the Company, respectively.

On May 4, 2012, we and AWCC filed a universal shelf registration statement that enabled us to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, all subject to market demand and ratings status. During 2014, 2013 and 2012, $500 million, $400 million and $300 million, respectively, of debt securities were issued pursuant to this registration statement.

The following long-term debt was issued in 2014:

Company	Type	Rate	Maturity	Amount
AWCC (1)	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$500,000
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$510,474

(1) On August 14, 2014, AWCC closed on senior fixed rate notes. Proceeds from this issuance were used to refinance commercial paper borrowings and to finance redemptions of long-term debt.

(2) Proceeds from the above issuance were received in 2014 and have been utilized to fund certain specific projects. $10.0 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

In addition to the above issuances, we also assumed $1.7 million of debt as a result of acquisitions in 2014.

The following long-term debt was retired through optional redemption or payment at maturity during 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2018-2032	$101,085
AWCC	Senior notes—fixed rate	6.00%	2039	59,561
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	78,718
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other subsidiaries	Capital lease payments			28
Total retirements and redemptions				$241,042

(1) Includes $1.0 million of non-cash redemptions resulting from the use of restricted funds.

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC (1)	Senior notes—fixed rate	3.85%	2024	$400,000
AWCC (2)	Private activity bonds and government funded debt—fixed rate	2.30%-2.90%	2021-2030	8,122
Other subsidiaries (3)	Private activity bonds and government funded debt—fixed rate	1.59%-2.41%	2031-2033	2,737
Total issuances				$410,859

(1) On November 20, 2013, AWCC closed on 3.85% senior fixed rate notes offering. Proceeds from the offering were used to refinance commercial paper borrowings.
(2) Proceeds from the above issuance were received in the fourth quarter of 2013 and have been utilized to fund certain specific projects. $6.7 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.
(3) Proceeds from the above issuances were received from Pennsylvania Infrastructure Investment Authority (“PennVest”) and have been used to fund certain projects.

In addition to the above issuances, we also assumed $12.7 million of debt as a result of acquisitions in 2013, of which $12.5 million is the result of our Dale Service Corporation stock acquisition in the fourth 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 (In thousands)
AWCC (1)	Senior notes—fixed rate	5.39%-10.00%	2013-2017	$476,638
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00% -5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds—fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatory redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Capital leases & other			359
Total retirements & redemptions				$498,310

(1) On October 8, 2013, we announced the purchase and retirement through a tender offer of $225.8 million in aggregate outstanding principal amount of our 6.08% Senior Notes due 2017. On October 8, 2013, we paid $271.8 million to effect the tender, which, in addition to the principal, included a repurchase premium of $39.4 million and accrued interest of $6.6 million. Also, in October 2013 and related to the tender, we recorded transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. The redemption was originally financed through commercial paper borrowing.
(2) Includes a $3.6 million of non-cash redemptions resulting from the use of restricted funds.

On November 1, 2013, we issued notices of redemption for $74.8 million and $75.0 million of outstanding Senior Notes with an original maturity date of 2038 and interest rates of 8.25% and 10.0%, respectively. These notes were retired on December 1, 2013.

Also on December 21, 2013, an additional $101.0 million with an interest rate of 5.39% in Senior Notes matured.

The following long-term debt was issued in 2012:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC (1)	Senior notes—fixed rate	4.30%	2042	$300,000
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2025-2041	68,746
Other subsidiaries (3)	Private activity bonds and government funded debt—fixed rate	1.00%-2.76%	2025-2041	14,730
Other subsidiaries	Mortgage bonds—fixed rate	4.29%	2022	700
Total issuances				$384,176

(1) The net proceeds from this issuance were used to finance certain redemptions of long-term debt and to fund the repayment of short-term debt.

(2) Proceeds from these issuances were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the Trust are reflected as the release of restricted funds and are included in investing activities in the Consolidated Statements of Cash Flows.

(3) Proceeds from these issuances were received from the Pennsylvania Infrastructure Investment Authority and have been used to fund specified projects.

Also, in the second quarter of 2012, and in connection with the acquisition of our additional subsidiaries in New York, we assumed debt of $25.2 million with coupon rates of 5.00% to 6.00% and maturity dates ranging from 2015 to 2035. In September 2012, we redeemed $10.9 million of these outstanding bonds with original maturity dates of 2031 to 2035 and interest rates ranging from 5.00% to 6.00%.

The following long-term debt was retired through optional redemption or payment at maturity during 2012:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC	Senior notes—fixed rate	8.25%	2038	$ 10
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-9.60%	2012-2041	447,325
Other subsidiaries	Mortgage bonds—fixed rate	6.85%-7.95%	2012	24,200
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2036	1,549
Other	Capital leases & other			419
Total retirements & redemptions				$473,503

Included in the long-term debt redemptions/retirements is $4.2 million related to our previously held Ohio subsidiary, which was classified in discontinued operations prior to its divestiture.

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheets.

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. This program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions. The program will be conducted in accordance with Rule 10b-18 of the Exchange Act, as amended, and to facilitate the purchases, the Company has also entered into with a broker a Rule 10b5-1 share repurchase plan. By having the Program administered through a Rule 10b5-1 plan, the Company will be able to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the Program or the Rule 10b5-1 parameters at its discretion.

Credit Facility and Short-Term Debt

The short-term debt balance, consisting of commercial paper, net of discount, amounted to $450.0 million and $630.3 million at December 31, 2014 and 2013, respectively.

AWCC has entered into an unsecured revolving credit facility with $1.25 billion in aggregate total commitments from a diversified group of 14 banks with $70.0 million maturing on October 2017 and the remainder, $1.18 billion, maturing on October 2018. Interest rates on advances under the facility are based on a credit spread to the Eurodollar rate or base rate with the credit spread of 1.00% through June 2012 and then based on the higher of AWCC's Moody's Investors Service, which we refer to as Moody's, or Standard & Poor's Ratings Services ratings, which we refer to as S&P, credit rating. At current ratings that spread would be 1.00%. The facility will be principally used to support AWCC's commercial paper program and to provide up to $150.0 million in letters of credit.

We closely monitor events in the financial markets and the financial institutions associated with this credit facility. In accordance with the credit agreement, no financial institution can have more than $250.0 million of the aggregate commitment through the facility expiration date. If any lender defaults in its obligation to fund advances, the Company may request the other lenders to assume the defaulting lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment. However, the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will be able to replace a defaulting lender.

The following table provides information as of December 31, 2014 and 2013, regarding the respective credit facility in effect at the time, letters of credit sub-limits and available funds under those revolving credit facilities, as well as outstanding amounts of commercial paper and outstanding borrowings under the respective facilities:

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sublimit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
	(In thousands)					
December 31, 2014	$1,250,000	$1,212,104	$150,000	$112,104	$449,959	$—
December 31, 2013	$1,250,000	$1,208,215	$150,000	$108,215	$630,307	$—

AWCC had no outstanding borrowings under the credit facility and $36.5 million of outstanding letters of credit under this credit facility as of February 19, 2015. Also, as of February 19, 2015, AWCC had $502.9 million of commercial paper outstanding.

The weighted-average interest rate on short-term borrowings for the years ended December 31, 2014 and 2013 was approximately 0.31% and 0.43%, respectively.

Capital Structure

The following table indicates the percentage of our capitalization represented by the components of our capital structure as of December 31, 2014, 2013 and 2012:

	At December 31, 2014	At December 31, 2013	At December 31, 2012
Total common stockholders' equity	45%	45%	44%
Long-term debt and redeemable preferred stock at redemption value	50%	49%	52%
Short-term debt and current portion of long-term debt	5%	6%	4%
	100%	100%	100%

The changes in the capital structure between periods were mainly attributable to changes in outstanding commercial paper balances.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements. We do not believe this change will materially impact us. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On December 31, 2014, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we also issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

On June 2, 2014, Standard & Poor's Rating Service revised its rating outlook to positive from stable and affirmed its corporate credit rating of A- on AWCC and American Water and of A2 on AWCC's short term rating. On May 29, 2013, Moody's upgraded its rating outlook for both American Water and AWCC from Baa2 to Baa1 and revised its rating outlook to stable.

The following table shows the Company's securities ratings as of December 31, 2014:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Dividends

Our Board of Directors has adopted a dividend practice to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. We expect that dividends will be paid quarterly to holders of record approximately 15 days prior to the distribution date. Since the dividends on our common stock will not be cumulative, only declared dividends will be paid.

During 2014, 2013 and 2012, we paid $216.4 million, $149.5 million and $213.5 million in dividends, respectively. For 2014, we paid a dividend of $0.28 per share on March 3 and $0.31 per share on June 2, September 2 and December 1. In 2013, we paid a dividend of $0.28 per share on December 2, September 3 and June 3.

For 2012, we paid a dividend of $0.25 per share on December 28, December 3 and September 3 and $0.23 per share on June 1 and March 1. The December 28, 2012 cash dividend payment of $0.25 per share would have historically been paid in March 2013, however, the Board approved accelerating the payment date to 2012 to take advantage of the existing 2012 tax rates.

On December 12, 2014, our Board of Directors declared a quarterly cash dividend payment of $0.31 per share payable on March 2, 2015 to shareholders of record as of February 9, 2015.

Regulatory Restrictions

The issuance by the Company or AWCC of long-term debt or equity securities does not require authorization of any state PUC if no guarantee or pledge of the regulated subsidiaries is utilized. However, state PUC authorization is required to issue long-term debt or equity securities at most of our regulated subsidiaries. Our regulated subsidiaries normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under applicable law, our subsidiaries can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the dividends that the subsidiary can distribute to us.

Insurance Coverage

We carry various property, casualty and financial insurance policies with limits, deductibles and exclusions that we believe are consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. Additionally, annual policy renewals can be impacted by claims experience which in turn can impact coverage terms and conditions on a going forward basis. We are self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our short-term and long-term financial condition and our results of operations and cash flows.

Contractual Obligations and Commitments

We enter into obligations with third parties in the ordinary course of business. These financial obligations, as of December 31, 2014, are set forth in the table below:

Contractual obligation	**Total**	**Less Than 1 year**	**1-3 Years**	**3-5 years**	**More Than 5 years**
			(In thousands)		
Long-term debt obligations (a)	$ 5,456,502	$ 59,446	$ 622,736	$ 617,175	$4,157,145
Interest on long-term debt (b)	4,261,744	303,956	597,636	492,976	2,867,176
Capital lease obligations (c)	885	36	92	115	642
Interest on capital lease obligations (d)	832	116	201	182	333
Operating lease obligations (e)	136,712	14,007	22,868	18,220	81,617
Purchase water obligations (f)	677,590	55,141	95,111	86,132	441,206
Other purchase obligations (g)	126,037	126,037	—	—	—
Postretirement benefit plans' obligations (h)	109,800	26,500	45,700	37,600	—
Pension plan obligations (h)	234,200	28,000	62,600	85,400	58,200
Preferred stocks with mandatory redemption requirements	17,252	1,650	3,300	3,478	8,824
Interest on preferred stock with mandatory redemption requirements	12,606	1,407	2,386	1,802	7,011
Other obligations (i)	814,020	184,032	144,963	61,651	423,374
Total	$11,848,180	$800,328	$1,597,593	$1,404,731	$8,045,528

Note: The above table reflects only financial obligations and commitments. Therefore, performance obligations associated with our Market-Based Operations are not included in the above amounts.

(a) Represents sinking fund obligations and debt maturities.

(b) Represents expected interest payments on outstanding long-term debt. Amounts reported may differ from actual due to future financing of debt.

(c) Represents future minimum payments under noncancelable capital leases.

(d) Represents expected interest payments on noncancelable capital leases.

(e) Represents future minimum payments under noncancelable operating leases, primarily for the lease of motor vehicles, buildings, land and other equipment including water facilities and systems constructed by partners under the Public-Private Partnerships described below.

(f) Represents future payments under water purchase agreements for minimum quantities of water.

(g) Represents the open purchase orders as of December 31, 2014, for goods and services purchased in the ordinary course of business.

(h) Represents contributions expected to be made to pension and postretirement benefit plans for the years 2015 through 2020.

(i) Includes an estimate of advances for construction to be refunded, capital expenditures estimated to be required under legal and binding contractual obligations, contracts entered into for energy purchases, a liability associated with a conservation agreement and service agreements.

Public-Private Partnerships

West Virginia-American Water Company, which we refer to as WVAWC, has entered into a series of agreements with various public entities, which we refer to as the Partners, to establish certain joint ventures, commonly referred to as "public-private partnerships." Under the public-private partnerships, WVAWC constructed utility plant, financed by WVAWC, and the Partners constructed utility plant (connected to WVAWC's property), financed by the Partners. WVAWC agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds, commonly referred to as IDBs, issued by the Partners under a state Industrial Development Bond and Commercial Development Act. WVAWC leased back the total facilities, including portions funded by both WVAWC and the Partners, under leases for a period of 40 years.

WVAWC leased back the transferred facilities under capital leases for a period of 40 years. The leases have payments that approximate the payments required by the terms of the IDBs. We have presented the transaction on a net basis in the consolidated financial statements. The carrying value of the transferred facilities, which is presented within utility plant, was approximately $156.8 million at December 31, 2014.

Performance Obligations

We have entered into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. These military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenues of $2.5 billion at December 31, 2014. The Operations and Maintenance agreements with municipalities and other customers expire between 2015 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $865.8 million at December 31, 2014. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain major maintenance for some of the facilities, in exchange for an annual fee.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Although our management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on our financial condition and results of operations as reflected in our consolidated financial statements.

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions in matters that are inherently uncertain and that may change in subsequent periods. Our management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with our audit committee. In addition, our management has also reviewed the following disclosures regarding the application of these critical accounting policies with the audit committee.

Regulatory Accounting

Our regulated utility subsidiaries are subject to regulation by state PUCs and the local governments of the states in which they operate. As such, we account for these regulated operations in accordance with authoritative guidance that requires us to reflect the effects of rate regulation in our financial statements. Use of the authoritative guidance is applicable to utility operations that meet the following criteria (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. As of December 31, 2014, we concluded that the operations of our regulated subsidiaries meet the criteria. If it is concluded in a future period that a separable portion of the business no longer meets the criteria, we are required to eliminate the financial statement effects of regulation for that part of the business, which would include the elimination of any or all regulatory assets and liabilities that had been recorded in the consolidated financial statements. Failure to meet the criteria of the authoritative guidance could materially impact our consolidated financial statements.

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. As of December 31, 2014, we have recorded $1.2 billion of net regulatory assets and $391.8 million of regulatory liabilities within our consolidated financial statements. See Note 6 of the Notes to Consolidated Financial Statements for further information regarding the significant regulatory assets and liabilities.

For each regulatory jurisdiction where we conduct business, we continually assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates. If subsequent events indicate that the regulatory assets or liabilities no longer meet the criteria for probable future recovery or settlement, our statement of operations and financial position could be materially affected.

Goodwill

The Company has recorded $1.2 billion of goodwill at December 31, 2014 and 2013. The Company’s annual impairment test is performed as of November 30 of each year, in conjunction with the timing of the completion of the Company’s annual strategic business plan. The Company also undertakes interim reviews 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 performs a two-step impairment test to evaluate the carrying value of goodwill for each reporting unit if qualitative factors indicate that it is more likely than not that the reporting units’ fair values are less than their carrying values. The step one calculation used to identify potential impairment compares the estimated fair value for each of the Company’s reporting units to their respective net carrying values, including goodwill, on the measurement date. If the estimated fair value of any reporting unit is less than such reporting unit’s carrying value, then step two is performed to measure the amount of the impairment loss (if any) for such reporting unit.

The step two calculation of the impairment test compares, by reporting unit, the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of each reporting unit above the fair value of such reporting unit’s identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill for any reporting unit, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill) for that reporting unit.

The determination of the fair value of each reporting unit and the fair value of each reporting unit’s assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

After assessing various events and circumstances in 2014, 2013 and 2012, the Company determined that no qualitative factors were present that would indicate the estimated fair values of its reporting units were less than the respective carrying values. As such, the Company determined that the two-step goodwill impairment test was not necessary at November 30, 2014, 2013 and 2012.

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

No impairment charge was recorded for the years ended December 31, 2014, 2013 and 2012.

Impairment of Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, we estimate the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on the consolidated financial statements.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which we invest, as well as volatility inherent in the external markets. In assessing potential impairment for these investments, we consider these factors. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Revenue Recognition

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are delivered to customers and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period. Unbilled utility revenues as of December 31, 2014 and 2013 were $220.5 million and $215.7 million, respectively. Increases in volumes delivered to the utilities' customers and rate mix due to changes in usage patterns in customer classes in the period could be significant to the calculation of unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue; however, since the majority of our customers are generally billed on a monthly basis, total operating revenues would remain materially unchanged.

Revenue from Market-Based Operations is recognized as services are rendered. Revenues from certain construction projects are recognized over the contract term based on the costs incurred to date during the period compared to the total estimated costs over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities on the balance sheet until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Accounting for Income Taxes

Significant management judgment is required in determining the provision for income taxes, primarily due to the uncertainty related to tax positions taken, as well as deferred tax assets and liabilities, valuation allowances and the utilization of NOL carryforwards.

In accordance with applicable authoritative guidance, we account for uncertain income tax positions using a benefit recognition model with a two-step approach, including a more-likely-than-not recognition threshold and a measurement approach based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If it is not more-likely-than-not that the benefit of the tax position will be sustained on its technical merits, no benefit is recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant judgment is required to determine whether the recognition threshold has been met and, if so, the appropriate amount of unrecognized tax benefit to be recorded in the consolidated financial statements.

We evaluate the probability of realizing deferred tax assets quarterly by reviewing a forecast of future taxable income and our intent and ability to implement tax planning strategies, if necessary, to realize deferred tax assets. We also assess our ability to utilize tax attributes, including those in the form of carryforwards, for which the benefits have already been reflected in the financial statements. We record valuation allowances for deferred tax assets when we conclude it is more-likely-than-not such benefit will not be realized in future periods.

Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, our forecasted financial condition and results of operations, failure to successfully implement tax planning strategies, as well as results of audits and examinations of filed tax returns by taxing authorities. While we believe the resulting tax balances as of December 31, 2014 and 2013 are appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome of tax matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 12 of the Notes to Consolidated Financial Statements for additional information regarding income taxes.

Accounting for Pension and Postretirement Benefits

We maintain noncontributory defined benefit pension plans covering eligible employees of our regulated utility and shared service operations. Benefits under the plans are based on the employee’s years of service and compensation. The pension plans have been closed for all employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. We also maintain other postretirement benefit plans, which provide varying levels of medical and life insurance for eligible retirees. These retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002. The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees. The

Company does not participate in a multiemployer plan. See Note 13 of the Notes to Consolidated Financial Statements for further information regarding the accounting for the defined benefit pension plans and postretirement benefit plans. The Company's pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to its actuaries, including the discount rate and expected long-term rate of return on plan assets. Material changes in the Company's pension and postretirement benefit costs may occur in the future due to changes in these assumptions as well as fluctuations in plan assets. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes. The primary assumptions are:

- Discount Rate—The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due;
- Expected Return on Plan Assets ("EROA")—Management projects the future return on plan assets considering prior performance, but primarily based upon the plans' mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs we record currently;
- Rate of Compensation Increase—Management projects employees' pay increases, which are used to project employees' pension benefits at retirement;
- Health Care Cost Trend Rate—Management projects the expected increases in the cost of health care; and
- Mortality—In the determination of year end 2014 projected benefit obligations, Management adopted a new table based on the Society of Actuaries RP 2014 mortality table including a generational BB-2D projection scale. The adoption resulted in a significant increase to pension and other postretirement benefit plans' projected benefit obligations.

The discount rate assumption, which is determined for the pension and postretirement benefit plans independently, is subject to change each year, consistent with changes in applicable high-quality, long-term corporate bond indices. We use an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a portfolio containing the majority of United States-issued AA-graded non-callable (or callable with make-whole provisions) corporate bonds. For each plan, the discount rate was developed as the level equivalent rate that would yield the same present value as using spot rates aligned with the projected benefit payments. The discount rate for determining pension benefit obligations was 4.24%, 5.12% and 4.17% at December 31, 2014, 2013 and 2012, respectively. The discount rate for determining other post-retirement benefit obligations was 4.24%, 5.10% and 4.16% at December 31, 2014, 2013 and 2012, respectively.

In selecting an expected return on plan assets, we considered tax implications, past performance and economic forecasts for the types of investments held by the plans. The long-term EROA assumption used in calculating pension cost was 6.91% for 2014, 7.49% for 2013, and 7.75% for 2012. The weighted average EROA assumption used in calculating other postretirement benefit costs was 5.87% for 2014, 6.99% for 2013 and 7.41% for 2012.

The asset allocations for the Company's U.S. pension plan at December 31, 2014 and 2013, by asset category, are as follows:

Asset category	Target Allocation 2015	Percentage of Plan Assets at December 31, 2014	2013
Equity securities	52%	51%	64%
Fixed income	40%	41%	35%
Real Estate	6%	6%	—
Real estate investment trusts ("REITs")	2%	2%	1
Total	100%	100%	100%

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor's and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company's other postretirement benefit plans are partially funded. The asset allocations for the Company's other postretirement benefit plans at December 31, 2014 and 2013, by asset category, are as follows:

Asset category	Target Allocation 2015	Percentage of Plan Assets at December 31, 2014	2013
Equity securities	30%	30%	48%
Fixed income	70%	70%	52%
REITs	—	—	— %
Total	100%	100%	100%

The Company's investment policy, and related target asset allocation, is evaluated periodically through asset liability studies. The studies consider projected cash flows of maturity liabilities, projected asset class return risk, and correlation and risk tolerance.

The pension and postretirement welfare plan trusts investments include debt and equity securities held either directly or through commingled funds. The trustee for the Company's defined benefit pension and postretirement welfare plans uses independent valuation firms to calculate the fair value of plan assets. Additionally, the Company independently verifies the assets values. Approximately 48.4% of the assets are valued using the quoted market price for the assets in an active market at the measurement date, while 51.6% of the assets are valued using other inputs.

In selecting a rate of compensation increase, we consider past experience in light of movements in inflation rates. Our rate of compensation increase was 3.12% for 2014, 3.15% for 2013 and 3.19% for 2012.

In selecting health care cost trend rates, we consider past performance and forecasts of increases in health care costs. Our health care cost trend rate used to calculate the periodic cost was 7.00% in 2014 gradually declining to 5.00% in 2019 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Change in Actuarial Assumption	Impact on Other Postretirement Benefit Obligation at December 31, 2014	Impact on 2014 Total Service and Interest Cost Components
	(In thousands)	
Increase assumed health care cost trend by 1%	$105,967	$ 5,943
Decrease assumed health care cost trend by 1%	$ (86,179)	$(4,887)

We will use a discount rate and EROA of 4.24% and 6.91%, respectively, for estimating our 2015 pension costs. Additionally, we will use a discount rate and EROA of 4.24% and 5.87%, respectively, for estimating our 2015 other postretirement benefit costs. A decrease in the discount rate or the EROA would increase our pension expense. Our 2014 and 2013 pension and postretirement costs, including such expenses charged to our discontinued operations, were $24.1 million and $78.1 million, respectively. The Company expects to make pension and postretirement benefit contributions to the plan trusts of $54.5 million, $55.6 million, $52.7 million, $56.7 million and $66.3 million in 2015, 2016, 2017, 2018 and 2019, respectively. Actual amounts contributed could change significantly from these estimates. The assumptions are reviewed annually and at any interim re-measurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension and postretirement benefit amounts as they occur, or over a period of time if allowed under applicable accounting standards. As these assumptions change from period to period, recorded pension and postretirement benefit amounts and funding requirements could also change.

New Accounting Standards

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 was effective on a retrospective basis for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated 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 was effective prospectively for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated guidance did not have an impact on the Company's results of operations, financial position or cash flows.

The following recently issued 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 after December 15, 2014, which for the Company is January 1, 2015. The adoption of this updated guidance resulted in a decrease to nonutility property and opening retained earnings of approximately $12 million on January 1, 2015.

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 updated guidance is effective on a prospective basis for interim and annual periods on or after December 15, 2014, which for the Company is January 1, 2015. In general, this guidance is likely to result in fewer disposals of assets qualifying as discontinued operations, but will ultimately be based on the Company's future disposal activity.

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning December 15, 2016, which for the Company is January 1, 2017. Early adoption is not permitted. The new guidance allows for either full retrospective adoption, meaning the guidance is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The 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 updated guidance may be applied either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

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

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

Hybrid Financial Instruments Issued in the Form of a Share

In November 2014, the FASB updated the derivatives and hedging guidance requiring issuers of, or investors in, hybrid financial instruments to determine whether the nature of the host contract is more akin to a debt instrument or an equity instrument by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This update should be applied on a modified retrospective basis to hybrid financial instruments issued in the form of a share that exist at the beginning of an entity's fiscal year of adoption. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Extraordinary and Unusual Items

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We are exposed to risks from changes in interest rates as a result of our issuance of variable and fixed rate debt and commercial paper. We manage our interest rate exposure by limiting our variable rate exposure and by monitoring the effects of market changes in interest rates. We also have the ability to enter into financial derivative instruments, which could include instruments such as, but not limited to, interest rate swaps, forward starting swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. As of December 31, 2014, a hypothetical increase of interest rates by 1% associated with our short-term borrowings would result in a $4.5 million decrease in our pre-tax earnings.

In July 2010, we entered into an interest rate swap agreement with a notional amount of $100.0 million. This agreement effectively converted the interest on $100.0 million of outstanding 6.085% fixed rate debt maturing 2017 to a variable rate of six-month LIBOR plus 3.422%. We entered into this interest rate swap to mitigate interest cost at the parent company relating to debt that was incurred by our prior owners and was not used in any manner to finance the cash needs of our subsidiaries. For the years ended December 31, 2014 and 2013, the interest rate swap reduced interest expense by $2.3 million and $2.0 million, respectively. As the swap interest rates are fixed through April 2015, a hypothetical 1% increase in the interest rates associated with the interest swap agreement would result in a $0.7 million decrease on our pre-tax earnings for the year ended December 31, 2014. This calculation holds all other variables constant and assumes only the discussed changes in interest rates.

Our risks associated with price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

We are exposed to credit risk through our water, wastewater and other water-related activities for both our Regulated Businesses and Market-Based Operations. Our Regulated Businesses serve residential, commercial, industrial and other customers while our Market-Based Operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated Businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

The Company's retirement trust assets are exposed to the market prices of debt and equity securities. Changes to the retirement trust asset value can impact the Company's pension and other benefits expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover pension and other benefit costs through rates. In addition, pension and other benefits liabilities decrease as fixed income asset values decrease (fixed income yields rise) since the rate at which we discount pension and other retirement trust asset future obligations is highly correlated to fixed income yields.

We are also exposed to a potential national economic recession or further deterioration in local economic conditions in the markets in which we operate. The credit quality of our customer accounts receivable is dependent on the economy and the ability of our customers to manage through unfavorable economic cycles and other market changes. In addition, as a result of the downturn in the economy and heightened sensitivity of the impact of additional rate increases on certain customers, there can be no assurances that regulators will grant sufficient rate authorizations. Therefore our ability to fully recover operating expense, recover our investment and provide an appropriate return on invested capital made in our Regulated Businesses may be adversely impacted.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows, and of changes in stockholders' equity present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2015

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

(In thousands, except per share data)

	December 31, 2014	December 31, 2013
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $3,991,680 in 2014 and $3,894,326 in 2013	$12,899,704	$12,244,359
Nonutility property, net of accumulated depreciation of $248,341 in 2014 and $215,083 in 2013	129,592	143,995
Total property, plant and equipment	13,029,296	12,388,354
Current assets		
Cash and cash equivalents	23,080	26,964
Restricted funds	13,859	28,505
Accounts receivable	267,053	241,926
Allowance for uncollectible accounts	(34,941)	(33,823)
Unbilled revenues	220,538	215,725
Income taxes receivable	2,575	5,778
Materials and supplies	37,190	32,973
Deferred income taxes	86,601	17,722
Assets of discontinued operations	—	7,761
Other	45,414	28,276
Total current assets	661,369	571,807
Regulatory and other long-term assets		
Regulatory assets	1,153,429	858,465
Restricted funds	8,958	754
Goodwill	1,208,043	1,207,764
Other	69,861	60,998
Total regulatory and other long-term assets	2,440,291	2,127,981
TOTAL ASSETS	$16,130,956	$15,088,142
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 179,462 shares outstanding in 2014 and 178,379 in 2013)	$ 1,795	$ 1,784
Paid-in-capital	6,301,729	6,261,396
Accumulated deficit	(1,295,549)	(1,495,698)
Accumulated other comprehensive loss	(81,868)	(34,635)
Treasury stock	(10,516)	(5,043)
Total common stockholders' equity	4,915,591	4,727,804
Long-term debt		
Long-term debt	5,432,744	5,212,881
Redeemable preferred stock at redemption value	15,501	17,177
Total capitalization	10,363,836	9,957,862

	December 31, 2014	December 31, 2013
Current liabilities		
Short-term debt	449,959	630,307
Current portion of long-term debt	61,132	14,174
Accounts payable	285,800	264,115
Taxes accrued	24,505	32,166
Interest accrued	56,523	52,087
Liabilities of discontinued operations	—	3,824
Other	363,079	238,860
Total current liabilities	1,240,998	1,235,533
Regulatory and other long-term liabilities		
Advances for construction	367,693	375,729
Deferred income taxes	2,120,739	1,840,697
Deferred investment tax credits	25,014	26,408
Regulatory liabilities	391,782	373,319
Accrued pension	316,368	108,542
Accrued postretirement benefit	192,502	88,419
Other	37,152	38,929
Total regulatory and other long-term liabilities	3,451,250	2,852,043
Contributions in aid of construction	1,074,872	1,042,704
Commitments and contingencies (See Note 14)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$16,130,956	$15,088,142

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

(In thousands, except per share data)

	Years Ended December 31,		
	2014	**2013**	**2012**
Operating revenues	$3,011,328	$2,878,936	$2,853,926
Operating expenses			
Operation and maintenance	1,349,864	1,289,081	1,329,500
Depreciation and amortization	424,084	406,717	380,402
General taxes	236,732	234,198	220,758
(Gain) loss on asset dispositions and purchases	(1,928)	624	(838)
Total operating expenses, net	2,008,752	1,930,620	1,929,822
Operating income	1,002,576	948,316	924,104
Other income (expenses)			
Interest, net	(297,818)	(308,164)	(310,794)
Loss on extinguishment of debt	—	(40,583)	—
Allowance for other funds used during construction	9,440	12,639	15,592
Allowance for borrowed funds used during construction	5,838	6,377	7,771
Amortization of debt expense	(7,026)	(6,603)	(5,358)
Other, net	(3,196)	(4,045)	(926)
Total other income (expenses)	(292,762)	(340,379)	(293,715)
Income from continuing operations before income taxes	709,814	607,937	630,389
Provision for income taxes	279,973	237,093	256,787
Income from continuing operations	429,841	370,844	373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	$ 423,108	$ 369,264	$ 358,070
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $(29,487), $46,974 and $(16,894), respectively	$ (46,119)	$ 73,472	$ (26,425)
Pension amortized to periodic benefit cost:			
Prior service cost, net of tax of $106, $111 and $113, respectively	166	174	176
Actuarial (gain) loss, net of tax of $(19), $5,697 and $4,668, respectively	(31)	8,911	7,301
Foreign currency translation adjustment	(458)	(1,001)	434
Unrealized loss on cash flow hedge, net of tax of $(428)	(791)	—	—
Other comprehensive income (loss)	(47,233)	81,556	(18,514)
Comprehensive income	$ 375,875	$ 450,820	$ 339,556
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03
Diluted earnings per share: (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01
Average common shares outstanding during the period			
Basic	178,888	177,814	176,445
Diluted	179,806	179,056	177,671
Dividends declared per common share	$ 1.24	$ 1.12	$ 0.98

(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

(In thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 423,108	$ 369,264	$ 358,070
Adjustments			
Depreciation and amortization	424,084	407,718	381,503
Provision for deferred income taxes	255,573	250,500	200,440
Amortization of deferred investment tax credits	(1,394)	(1,501)	(1,518)
Provision for losses on accounts receivable	36,587	26,953	26,701
Allowance for other funds used during construction	(9,440)	(12,639)	(15,592)
(Gain) loss on asset dispositions and purchases	(1,928)	925	(839)
Pension and non-pension postretirement benefits	24,073	78,069	87,289
Stock-based compensation expense	13,043	12,474	11,470
Other, net	(17,727)	(727)	(1,328)
Changes in assets and liabilities			
Receivables and unbilled revenues	(61,942)	(79,306)	(34,528)
Taxes receivable, including income taxes	3,203	3,816	(1,922)
Other current assets	(1,858)	672	(5,223)
Pension and non-pension postretirement benefit contributions	(52,195)	(97,500)	(129,410)
Accounts payable	(26,137)	16,215	(10,572)
Taxes accrued, including income taxes	(7,895)	(30,182)	48,440
Interest accrued	4,436	(1,723)	(5,647)
Change in book overdraft	31,677	(32,120)	34,172
Other current liabilities	62,019	(14,746)	14,092
Net cash provided by operating activities	1,097,287	896,162	955,598
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(956,119)	(980,252)	(928,574)
Acquisitions	(8,935)	(23,658)	(44,560)
Proceeds from sale of assets and securities	13,841	918	561,739
Removal costs from property, plant and equipment retirements, net	(78,175)	(64,727)	(57,101)
Net funds released	15,399	14,425	86,140
Net cash used in investing activities	(1,013,989)	(1,053,294)	(382,356)

	Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	500,497	404,157	315,430
Repayment of long-term debt	(238,371)	(493,095)	(471,954)
Proceeds from short-term borrowings with maturities greater than three months	35,000	221,000	—
Repayments of short-term borrowings with maturities greater than three months	(256,000)	—	—
Net short-term borrowings (repayments) with maturities less than three months	40,652	139,322	(211,064)
Proceeds from issuances of employee stock plans and DRIP	20,913	26,351	27,860
Advances and contributions for construction, net of refunds of $21,470 in 2014, $23,351 in 2013 and $17,850 in 2012	26,295	19,251	31,909
Change in bank overdraft position	—	—	(34,812)
Debt issuance costs	(4,593)	(4,503)	(7,393)
Redemption of preferred stock	(1,650)	(3,370)	(4,376)
Dividends paid	(216,354)	(149,450)	(213,459)
Other	6,429	—	4,843
Net cash provided by (used in) financing activities	(87,182)	159,663	(563,016)
Net increase (decrease) in cash and cash equivalents	(3,884)	2,531	10,226
Cash and cash equivalents at beginning of period	26,964	24,433	14,207
Cash and cash equivalents at end of period	$ 23,080	$ 26,964	$ 24,433
Cash paid during the year for:			
Interest, net of capitalized amount	$ 301,138	$ 317,826	$ 329,331
Income taxes, net of refunds of $3,668 in 2014, $127 in 2013 and $766 in 2012	$ 15,917	$ 7,788	$ 5,352
Non-cash investing activity:			
Capital expenditures acquired on account but unpaid as of year end	$ 185,641	$ 128,902	$ 159,119
Non-cash financing activity:			
Advances and contributions	$ 16,235	$ 17,590	$ 12,279
Dividends accrued	$ 55,552	$ 49,909	$ —
Long-term debt issued	$ 9,977	$ 6,702	$ 68,746
Long-term debt retired	$ 1,021	$ (3,565)	$ —

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

(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**	**Total Stockholders' Equity**
Balance at December 31, 2011	175,664	$1,757	$6,180,558	$(1,848,801)	$ (97,677)	—	$ —	$ 4,547	$4,240,384
Net income	—	—	—	358,070	—	—	—	—	358,070
Direct stock reinvestment and purchase plan, net of expense of $14	60	—	2,092	—	—	—	—	—	2,092
Employee stock purchase plan	87	1	3,306	—	—	31	1,046	—	4,353
Stock-based compensation activity	1,177	12	36,688	(1,168)	—	(31)	(1,046)	—	34,486
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(2,827)	(2,827)
Other comprehensive loss, net of tax of $(12,113)	—	—	—	—	(18,514)	—	—	—	(18,514)
Dividends	—	—	—	(173,056)	—	—	—	—	(173,056)
Balance at December 31, 2012	176,988	$1,770	$6,222,644	$(1,664,955)	$(116,191)	—	$ —	$ 1,720	$4,444,988
Net income	—	—	—	369,264	—	—	—	—	369,264
Direct stock reinvestment and purchase plan, net of expense of $49	53	1	2,122	—	—	—	—	—	2,123
Employee stock purchase plan	111	1	4,554	—	—	—	—	—	4,555
Stock-based compensation activity	1,227	12	32,076	(648)	—	(132)	(5,043)	—	26,397
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(1,720)	(1,720)
Other comprehensive income, net of tax of $52,782	—	—	—	—	81,556	—	—	—	81,556
Dividends	—	—	—	(199,359)	—	—	—	—	(199,359)
Balance at December 31, 2013	178,379	$1,784	$6,261,396	$(1,495,698)	$ (34,635)	(132)	$ (5,043)	$ —	$4,727,804
Net income	—	—	—	423,108	—	—	—	—	423,108
Direct stock reinvestment and purchase plan, net of expense of $33	44	1	2,086	—	—	—	—	—	2,087
Employee stock purchase plan	102	1	4,821	—	—	—	—	—	4,822
Stock-based compensation activity	937	9	33,426	(962)	—	(129)	(5,473)	—	27,000
Other comprehensive loss, net of tax of $(29,828)	—	—	—	—	(47,233)	—	—	—	(47,233)
Dividends	—	—	—	(221,997)	—	—	—	—	(221,997)
Balance at December 31, 2014	179,462	$1,795	$6,301,729	$(1,295,549)	$ (81,868)	(261)	$(10,516)	$ —	$4,915,591

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

(In thousands, except per share data)

Note 1: Organization and Operation

American Water Works Company, Inc. ("AWW") and its subsidiaries (collectively referred to herein as the "Company") is the holding company for regulated and market-based subsidiaries throughout the United States of America and one Canadian province. The regulated subsidiaries provide water and wastewater services as public utilities in 16 U.S. states. The market-based subsidiaries include various lines of business including Homeowner Services, which provides water and sewer line protection plans for homeowners; Military Services Group, which conducts operation and maintenance of water and wastewater systems for military bases; and the Contract Operations Group, which conducts operation and maintenance of water and wastewater facilities for municipalities and the food and beverage industry.

Note 2: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AWW and its subsidiaries. Intercompany balances and transactions between subsidiaries have been eliminated. The Company uses the equity method to report its investments in joint ventures in which the Company holds a 50% voting interest and cannot exercise control over the operations and policies of the investments. Under the equity method, the Company records its interests as an investment and its percentage share of earnings as earnings or losses of investee.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers benefit plan assumptions; the estimates used in impairment testing of goodwill and other long-lived assets, including regulatory assets; revenue recognition; and accounting for income taxes to be its critical accounting estimates. The Company's significant accounting estimates that are particularly sensitive to change in the near term are amounts reported for pension and other postemployment benefits, contingency-related obligations and goodwill.

Regulation

The Company's regulated utilities are subject to economic regulation by the public utility commissions and the local governments of the states in which they operate (the "PUCs"). These PUCs have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with authoritative guidance applicable to those companies whose rates are established by or are subject to approval by an independent third-party PUC. Regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a market-based company. These deferred regulatory assets and liabilities are then reflected in the statement of operations in the period in which the costs and credits are reflected in the rates charged for service. (See Note 6)

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The cost of repairs; maintenance, including planned major maintenance activities; and minor replacements is charged to maintenance expense as incurred.

The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $319,517 and $303,798 at December 31, 2014 and 2013, respectively.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Nonutility property consists primarily of buildings and equipment utilized by the Company for internal operations. This property is stated at cost, net of accumulated depreciation calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to 50 years.

Cash and Cash Equivalents

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Restricted Funds

Restricted funds primarily represent proceeds from financings for the construction and capital improvement of facilities and deposits for future services under operation and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Classification of restricted funds in the balance sheet as either current or long-term is based upon the intended use of the funds.

Accounts and Unbilled Receivables

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable PUCs and collateral is generally not required. Also included are market-based trade accounts receivable and nonutility customer receivables of the regulated subsidiaries. Unbilled receivables are accrued when service has been provided but has not been billed to customers.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes off accounts when they become uncollectible. (See Note 5)

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. A provision is made to reduce excess or obsolete inventory to its net realizable value.

Goodwill

Goodwill is primarily associated with the acquisitions of AWW in 2003 and E'town Corporation in 2001 (the "Acquisitions") and has been assigned to reporting units based on the fair values at the date of the Acquisitions. The reporting units in the Regulated Businesses segment are aggregated into a single reporting unit. The Market-Based Operations segment is comprised of three reporting units. Goodwill is tested annually or more frequently if changes in circumstances indicate goodwill may be impaired. Impairment exists when the carrying value of a reporting unit exceeds its fair value. Annual impairment tests are performed in the fourth quarter of the calendar year, in conjunction with the timing of the completion of the Company's annual strategic business plan.

The Company considers the carrying value of goodwill to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to value goodwill to be appropriate. However, if experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the consolidated financial statements.

Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the asset and compares that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recorded.

The Company considers the estimates used in the determination of fair value of long-lived assets to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to evaluate the carrying value of long-lived assets are appropriate. However, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the consolidated financial statements.

The key variables to determine fair value include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties, since they are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

The long-lived assets of the regulated utility subsidiaries are tested on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The Company holds other investments including investments in privately held companies and investments in joint ventures accounted for using the equity method. The Company's investments in privately held companies and joint ventures are classified as other long-term assets.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which the Company invests, as well as volatility inherent in the external markets. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Advances for Construction and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances for construction (“advances”) and contributions in aid of construction (“contributions”) from customers, home builders and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Included in other current liabilities at December 31, 2014 and 2013 in the accompanying Consolidated Balance Sheets are estimated refunds of $18,366 and $17,308, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. In accordance with applicable regulatory guidelines, some of the Company’s subsidiaries do not amortize contributions, and any contribution received remains on the balance sheet indefinitely. Amortization of contributions in aid of construction was $23,913, $22,363 and $20,979 for the years ended December 31, 2014, 2013 and 2012, respectively.

Recognition of Revenues

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are provided, and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period.

The Company has agreements with the United States Government to operate and maintain water and wastewater systems at various military bases pursuant to 50-year contracts (“military agreements”). These contracts also include construction components that are accounted for separately from the operations and management components. The military agreements are subject to periodic price redetermination adjustments and modifications for changes in circumstance. Additionally, the Company has agreements ranging in length from two to 40 years with various industries and municipalities to operate and maintain water and wastewater systems (“O&M agreements”). Revenues from operations and management services are recognized as services are provided. (See Note 14)

Construction Contracts

Revenues from construction projects are recognized over the contract term based on the costs incurred to date during the period compared to the total estimated costs over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred by the regulated utility subsidiaries and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Allowance for Funds Used During Construction ("AFUDC")

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. The regulated utility subsidiaries record AFUDC to the extent permitted by the PUCs.

Environmental Costs

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $2,200 and $3,300 at December 31, 2014 and 2013, respectively. The accrual relates entirely to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 to 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at December 31, 2014 and 2013 include $7,791 and $8,027, respectively, related to the NOAA agreement.

Derivative Financial Instruments

The Company uses derivative financial instruments for purposes of hedging exposures to fluctuations in interest rates. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as a hedge of the fair value of a recognized asset or liability (fair-value hedge) or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge).

Changes in the fair value of a fair-value hedge, along with the gain or loss on the underlying hedged item, are recorded in current-period earnings. The effective portion of gains and losses on cash-flow hedges are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Any ineffective portion of designated hedges is recognized in current-period earnings.

Cash flows from derivative contracts are included in net cash provided by operating activities.

New Accounting Standards

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 was effective on a retrospective basis for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated 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 was effective prospectively for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated guidance did not have an impact on the Company's results of operations, financial position or cash flows.

The following recently issued 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 after December 15, 2014, which for the Company is January 1, 2015. The adoption of this updated guidance resulted in a decrease to nonutility property and opening retained earnings of approximately $12,000 on January 1, 2015.

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 updated guidance is effective on a prospective basis for interim and annual periods on or after December 15, 2014, which for the Company is January 1, 2015. In general, this guidance is likely to result in fewer disposals of assets qualifying as discontinued operations, but will ultimately be based on the Company's future disposal activity.

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning December 15, 2016, which for the Company is January 1, 2017. Early adoption is not permitted. The new guidance allows for either full retrospective adoption, meaning the guidance is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The 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 updated guidance may be applied either: (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

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

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

Hybrid Financial Instruments Issued in the Form of a Share

In November 2014, the FASB updated the derivatives and hedging guidance requiring issuers of, or investors in, hybrid financial instruments to determine whether the nature of the host contract is more akin to a debt instrument or an equity instrument by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This update should be applied on a modified retrospective basis to hybrid financial instruments issued in the form of a share that exist at the beginning of an entity's fiscal year of adoption. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Extraordinary and Unusual Items

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

Reclassifications

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

In 2014 the Company revised its 2013 balance sheet to properly reclassify $17,722 of deferred income taxes from current liabilities to current assets. This reclassification was not material to the previously issued financial statements.

Note 3: Acquisitions and Divestitures

Acquisitions

During 2014, the Company closed on 13 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $8,935. Assets acquired, principally plant, totaled $16,592 including $354 of goodwill and liabilities assumed totaled $7,745, including $4,741 of contributions in aid of construction and assumed debt of $1,683.

During 2013, the Company closed on 15 acquisitions of various regulated water and wastewater systems for a total aggregate net purchase price of $23,658. Assets acquired (primarily utility plant) totaled $67,403, and liabilities assumed totaled $43,745, including $25,654 of contributions in aid of construction and assumed debt of $12,673. Included in these totals was the Company's November 14, 2013 acquisition of all of the capital stock of Dale Service Corporation ("Dale"), a regulated wastewater utility company, for a total cash purchase price of $5,090 (net of cash acquired of $6,910), plus assumed liabilities. The Dale acquisition added approximately twenty thousand wastewater customers to the Company's existing water services footprint in Northern Virginia. The Dale acquisition was accounted for as a business combination; accordingly, operating results from November 14, 2013 were included in the Company's results of operations. The purchase price was allocated to the net tangible and intangible assets based upon their estimated fair values at the date of acquisition. The

Company's regulatory practice has been followed whereby property, plant and equipment (rate base) is considered fair value for business combination purposes. Similarly, regulatory assets and liabilities acquired have been recorded at book value and are subject to regulatory approval where applicable. The acquired debt was valued in a manner consistent with the Company's Level 3 debt. (See Note 16) Non-cash assets acquired in the Dale acquisition (primarily utility plant) totaled $40,999; liabilities assumed totaled $35,909, including debt assumed of $12,570 and contributions of $19,163.

During 2012, the Company closed on 10 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $44,560. Included in this total was the Company's May 1, 2012 acquisition of all of the capital stock of Aqua New York, Inc. for a total cash purchase price of $36,688 plus assumed liabilities. Assets acquired in the Aqua New York acquisition totaled $102,727, including $59,139 of plant, $27,400 of regulatory assets, and $12,181 of goodwill; liabilities assumed totaled $66,039, including long-term debt of $25,215, $11,885 of regulatory liabilities, $15,424 of deferred taxes, $1,708 of other liabilities, $1,060 of contributions in aid of construction and $9,710 of pension and postretirement welfare liabilities. Assets acquired (primarily utility plant) in the other nine acquisitions during 2012 totaled $12,514; liabilities assumed totaled $4,642.

Divestitures

In November 2014, the Company completed the sale of Terratec, previously included in the Market-Based Operations segment. After post-close adjustments, net proceeds from the sale totaled $1,455, and the Company recorded a pretax loss on sale of $1,454.

In January 2012, the Company completed the sale of its Arizona and New Mexico subsidiaries. After post-close adjustments, net proceeds from the sale totaled $458,860, and the Company recorded a pretax loss on sale of $2,198.

In May 2012, the Company completed the sale of its Ohio subsidiary. After post-close adjustments, net proceeds from the sale totaled $102,154, and the Company recorded a pretax loss on sale of $4,095.

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

	Years Ended December 31,		
	2014	2013	2012
Operating revenues	$13,614	$22,922	$ 42,341
Total operating expenses, net	19,482	25,389	49,726
Operating loss	(5,868)	(2,467)	(7,385)
Other income (expenses), net	—	—	(167)
Income (loss) from discontinued operations before income taxes	(5,868)	(2,467)	(7,552)
Provision (benefit) for income taxes	865	(887)	7,980
Income (loss) from discontinued operations	$ (6,733)	$ (1,580)	$(15,532)

The provision for income taxes of discontinued operations includes the recognition of tax expense related to the difference between the tax basis and book basis of assets upon the sales of Terratec, 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.

Assets and liabilities of discontinued operations at December 31, 2013 relate to the discontinued Terratec business that was sold in November 2014. The classification for the year ended December 31, 2013 was as follows:

	2013
ASSETS	
Total property, plant and equipment	$2,808
Current assets	4,953
Total assets of discontinued operations	$7,761
LIABILITIES	
Current liabilities	$3,824
Total liabilities of discontinued operations	$3,824

There were no assets or liabilities of discontinued operations in the accompanying Consolidated Balance Sheet at December 31, 2014.

Note 4: Utility Plant

The major classes of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2014	2013
Water plant			
Land and other non-depreciable assets		$ 137,199	$ 132,295
Sources of supply	11 to 127 Years	680,623	659,249
Treatment and pumping facilities	3 to 101 Years	2,969,411	3,006,140
Transmission and distribution facilities	9 to 156 Years	7,962,759	7,489,208
Services, meters and fire hydrants	9 to 122 Years	3,062,568	2,898,293
General structures and equipment	1 to 154 Years	1,035,857	995,186
Wastewater plant	2 to 115 Years	739,963	683,112
Construction work in progress		303,004	275,202
		16,891,384	16,138,685
Less accumulated depreciation		3,991,680	3,894,326
		$12,899,704	$12,244,359

Utility plant depreciation expense of continuing operations amounted to $356,952 in 2014, $337,653 in 2013 and $314,639 in 2012. The Company's regulated utility subsidiaries record depreciation in conformity with amounts approved by state regulators after regulatory review of information the Company submits to support its estimates of the assets' remaining useful lives.

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.94% in 2014, 2013 and 2012.

Note 5: Allowance for Uncollectible Accounts

The following table summarizes the changes in the Company's allowances for uncollectible accounts:

	2014	2013	2012
Balance at January 1	$(33,823)	$(26,744)	$(18,902)
Amounts charged to expense	(36,717)	(26,953)	(26,701)
Amounts written off	42,886	23,914	22,607
Recoveries of amounts written off	(7,287)	(4,040)	(3,748)
Balance at December 31	$(34,941)	$(33,823)	$(26,744)

Note 6: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Except for income taxes, regulatory assets are excluded from the Company's rate base and generally do not earn a return. The components of regulatory assets at December 31 are as follows:

	2014	2013
Income taxes recoverable through rates	$ 228,601	$242,902
Debt and preferred stock expense	71,403	72,349
Deferred pension expense	263,486	109,799
Deferred other postretirement benefit expense	106,792	3,653
Deferred business services project expense	7,530	7,763
Deferred tank painting costs	37,207	33,519
Deferred rate case expense	6,785	9,407
Purchase premium recoverable through rates	60,412	60,787
Environmental remediation recoverable through rates	7,791	8,027
Coastal water project costs	8,386	16,826
San Clemente Dam project costs	71,891	44,404
Removal costs recoverable through rates	163,123	126,771
Regulatory balancing accounts	60,043	63,083
Other	59,979	59,175
	$1,153,429	$858,465

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the regulatory authorities of full normalization for rate making purposes. Full normalization requires no flow through of tax benefits to customers. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over approximately 30 years from date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain subsidiaries. These costs will be recovered in future service rates as contributions are made to the pension plan. The Company also has a regulatory asset of $248,641 and $90,380 at December 31, 2014 and 2013, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Postretirement benefit expense in excess of the amount recovered in rates through 1997 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service and will be recovered as authorized by the Company's regulatory authorities. The Company also has a regulatory asset of $107,236 and $3,113 at December 31, 2014 and 2013, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that began operations in 2001. These costs are recognized in the rates charged for water service by certain subsidiaries.

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from five to 15 years, as authorized by the regulatory authorities in their determination of rates charged for service.

The Company amortizes rate case expenditures over regulatory approved amortization periods, typically three years. Rate case proceeding expenditures probable of future recovery are deferred.

Purchase premium recoverable through rates is primarily the recovery of the acquisition premiums related to an asset acquisition by the Company's California subsidiary during 2002, and acquisitions in 2007 by the Company's New Jersey subsidiary. As authorized for recovery by the California and New Jersey PUCs, these costs are being amortized to operations through November 2048.

Environmental remediation recoverable through rates is the recovery of costs incurred by the Company's California subsidiary under a settlement agreement entered into with NOAA to improve habitat conditions in the Carmel River Watershed.

Coastal water project costs include preliminary costs associated with the studying, testing and design of alternatives to help solve water supply shortages in Monterey, California. Coastal water project costs incurred through December 31, 2010 have been reviewed and approved for recovery through a surcharge. Costs deferred during 2014, 2013 and 2012 totaled $1,923, $1,299 and $1,987, respectively. The Company believes it is probable that the costs incurred since the last rate review will also be recoverable.

San Clemente Dam project costs represent costs incurred and deferred by the Company's California subsidiary pursuant to its efforts to investigate alternatives to strengthen or remove the dam due to potential earthquake and flood safety concerns. In June 2012, the California Public Utility Commission ("CPUC") issued a decision authorizing implementation of a project to reroute the Carmel River and remove the San Clemente Dam. The project includes the Company's California subsidiary, the California State Conservancy and the National Marine Fisheries Services. Under the order's terms, the CPUC has authorized recovery of all previous pre-construction costs incurred by the Company's subsidiary, and has authorized additional expenditures to be capped at $49,000 for the reroute and dam removal efforts and $2,500 for estimated interim dam safety measures. All pre-construction costs, totaling $24,303, are to be recovered via a surcharge over a 20-year period beginning October 2012; surcharge collections in 2014 and 2013 totaled $4,531 and $3,753, respectively. Costs deferred in addition to the pre-construction costs totaled $26,023 and $12,394 as of December 31, 2014 and 2013, respectively.

Regulatory balancing accounts accumulate differences between revenues and authorized revenue requirements until they are collected from customers or are refunded. Regulatory balancing accounts include low income programs and purchased power and water accounts.

Other regulatory assets include certain deferred employee benefit costs which are deferred because the amounts are being recovered in rates or are probable of recovery through rates in future periods.

The components of regulatory liabilities at December 31 are as follows:

	2014	2013
Removal costs recovered through rates	$300,635	$301,537
Pension and other postretirement benefit balancing accounts	53,734	40,837
Other	37,413	30,945
	$391,782	$373,319

Removal costs recovered through rates are retirement costs recovered during the life of the associated assets. In December 2008, the Company's subsidiary in New Jersey, at the direction of the New Jersey PUC, began to amortize $48,000 of the total balance into operations via straight line amortization through November 2048.

Pension and other postretirement benefit balancing accounts represent the difference between costs incurred and costs authorized by the PUC's.

Other regulatory liabilities include legal settlement proceeds, deferred gains, future customer refunds, and various regulatory balancing accounts.

Note 7: Goodwill

The Company's annual impairment test is performed as of November 30 of each year, in conjunction with the completion of the Company's annual strategic business plan. The Company assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company also undertakes interim reviews 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.

After assessing various events and circumstances in 2014, 2013 and 2012, the Company determined that no qualitative factors were present that would indicate the estimated fair values of its reporting units were less than the respective carrying values. As such, the Company determined that the two-step goodwill impairment test was not necessary at November 30, 2014, 2013 and 2012.

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies or decreases in control premiums. A decline in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in the Company's interest rates, could also result in an impairment charge.

The changes in the Company's carrying value of goodwill by reporting unit are as follows:

	Regulated Unit		Market-Based Operations		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
Goodwill from acquisitions	428	—	—	—	428	—	428
Reclassifications and other activity	86	—	—	—	86	—	86
Balance at December 31, 2013	$3,412,063	$(2,332,670)	$235,990	$(107,619)	$3,648,053	$(2,440,289)	$1,207,764
Goodwill from acquisitions	354	—	—	—	354	—	354
Reclassifications and other activity	(75)	—	—	—	(75)	—	(75)
Balance at December 31, 2014	$3,412,342	$(2,332,670)	$235,990	$(107,619)	$3,648,332	$(2,440,289)	$1,208,043

For further information on goodwill from acquisitions, refer to Note 3 of the Consolidated Financial Statements.

Note 8: 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 December 31, 2014, there were 4,611 shares available for future issuance under the DRIP. The following table summarizes information regarding issuances under the DRIP for the years ended December 31, 2014 and 2013:

	2014	2013
Shares of common stock issued	44	53
Cash proceeds received	$2,119	$2,171

Cash dividend payments made during 2014 and 2013 were as follows:

	2014	2013
Dividends per share, three months ended:		
March 31	$ 0.28	$ —
June 30	0.31	0.28
September 30	0.31	0.28
December 31	0.31	0.28
Total dividends paid, three months ended:		
March 31	$49,968	$ —
June 30	55,422	49,744
September 30	55,458	49,810
December 31	55,506	49,896

On December 12, 2014, the Company declared a quarterly cash dividend of $0.31 per share, payable on March 2, 2015 to shareholders of record as of February 9, 2015. As of December 31, 2014, the Company had accrued dividends totaling $55,552 included in other current liabilities on the accompanying Consolidated Balance Sheets.

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax:

	Defined Benefit Plans					
	Employee Benefit Plan Funded Status	**Amortization of Prior Service Cost**	**Amortization of Actuarial (Gain) Loss**	**Foreign Currency Translation**	**Loss on Cash Flow Hedge**	**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	73,472	—	—	(1,001)	—	72,471
Amounts reclassified from accumulated other comprehensive income (loss)	—	174	8,911	—	—	9,085
Net comprehensive income (loss) for the period	73,472	174	8,911	(1,001)	—	81,556
Ending balance at December 31, 2013	$ (69,711)	$713	$31,150	$ 3,213	$ —	$ (34,635)
Other comprehensive income (loss) before reclassifications	(46,119)	—	—	(458)	(820)	(47,397)
Amounts reclassified from accumulated other comprehensive income (loss)	—	166	(31)	—	29	164
Net comprehensive income (loss) for the period	(46,119)	166	(31)	(458)	(791)	(47,233)
Ending balance at December 31, 2014	$(115,830)	$879	$31,119	$ 2,755	$(791)	$ (81,868)

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 (loss) components are included in the computation of net periodic pension cost. (See Note 13)

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

Stock 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"). The total aggregate number of shares of common stock that may be issued under the Plan is 15,500. As of December 31, 2014, a total of 8,869 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 years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Stock options	$ 2,602	$ 3,170	$ 3,282
Restricted stock units	9,848	8,718	7,658
Employee stock purchase plan	593	586	530
Stock-based compensation in operation and maintenance expense	13,043	12,474	11,470
Income tax benefit	(5,087)	(4,865)	(4,473)
After-tax stock-based compensation expense	$ 7,956	$ 7,609	$ 6,997

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2014, 2013 and 2012.

The cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is measured based on the grant date fair value of the awards issued. The value of stock options and restricted stock unit awards at the date of the grant is amortized through expense over the three-year service period. All awards granted in 2014, 2013 and 2012 are classified as equity.

The Company receives a tax deduction based on the intrinsic value of the award at the exercise date for stock options and the distribution date for restricted stock units. For each award, throughout the requisite service period, the Company recognizes the tax benefits, which have been included in deferred tax assets, related to compensation costs. The tax deductions in excess of the benefits recorded throughout the requisite service period are recorded to shareholders' equity or the income statement and are included in the financing section of the statement of cash flows.

The Company stratified its grant populations and used historic employee turnover rates to estimate employee forfeitures. The estimated rate is compared to the actual forfeitures at the end of the period and adjusted as necessary.

Stock Options

In 2014, 2013 and 2012, 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 on January 1 of the year of grant. 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 for grants and the resulting weighted-average grant date fair value per share of stock options granted in the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Dividend yield	2.55%	2.52%	2.70%
Expected volatility	17.75%	23.50%	28.35%
Risk-free interest rate	1.06%	0.70%	0.78%
Expected life (years)	3.6	4.3	4.4
Exercise price	$44.29	$39.60	$34.14
Grant date fair value per share	$ 4.57	$ 5.78	$ 6.11

The Company utilized the "simplified method" to determine the expected stock option life due to insufficient historical experience to estimate the exercise patterns of the stock options granted. The Company began granting stock options at the time of its initial public offering in April 2008. Expected volatility is based on a weighted average of historic volatilities of traded common stock of peer companies (regulated water companies) over the expected term of the stock options and historic volatilities of the Company's common stock during the period it has been publicly traded. The dividend yield is based on the Company's expected dividend payments and the stock price on the date of grant. The risk-free interest rate is the market yield on U.S. Treasury strips with maturities similar to the expected term of the stock options. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Stock options vest over periods ranging from one to three years and expire seven years from the effective date of the grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model.

The value of stock options at the date of the grant is amortized through expense over the requisite service period using the straight-line method. As of December 31, 2014, $1,545 of total unrecognized compensation cost related to nonvested stock options is expected to be recognized over the remaining weighted-average period of 1.7 years. The total grant date fair value of stock options vested during the years ended December 31, 2014, 2013 and 2012 was $2,728, $3,512 and $3,219, respectively.

The table below summarizes stock option activity for the year ended December 31, 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	(62)	39.23		
Exercised	(574)	25.40		
Options outstanding at December 31, 2014	1,910	$33.47	3.9	$37,881
Exercisable at December 31, 2014	1,094	$27.68	2.8	$28,022

The following table summarizes additional information regarding stock options exercised during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Intrinsic value	$12,689	$15,102	$14,515
Exercise proceeds	14,582	20,211	22,112
Income tax benefit	3,885	4,383	4,017

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 was achieved, the restricted stock units would vest; if performance was surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, awards would be cancelled. In January 2014, an additional 113 restricted stock units were granted and distributed because performance thresholds were exceeded.

In 2014, 2013 and 2012, the Company granted restricted stock units, both with and without performance conditions, to certain employees under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1 of the year of the grant and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1 of the year of grant (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.

During 2014, 2013 and 2012, the Company granted restricted stock units to non-employee directors under the Plan. The restricted stock units vested on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (a) 15 months after grant date or (b) the participant's separation from service. Because these restricted stock units vested on grant date, the total grant date fair value was recorded in operation and maintenance expense included in the expense table above on the grant date.

Restricted stock units generally vest over periods ranging from one to three years. 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. Restricted stock units granted with market conditions are valued using a Monte Carlo model. Expected volatility is based on historical volatilities of traded common stock of the Company and comparative companies using daily stock prices over the past three years. The expected term is three years and the risk-free interest rate is based on the three-year U.S. Treasury rate in effect as of the measurement date. The following table presents the weighted-average assumptions used in the Monte Carlo simulation and the weighted-average grant date fair values of restricted stock units granted during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Expected volatility	17.78%	19.37%	22.47%
Risk-free interest rate	0.75%	0.40%	0.43%
Expected life (years)	3	3	3
Grant date fair value per share	$45.45	$40.13	$37.40

The grant date fair value of restricted stock 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 December 31, 2014, $4,634 of total unrecognized compensation cost related to the nonvested restricted stock units is expected to be recognized over the weighted-average remaining life of 1.4 years. The total grant date fair value of restricted stock units vested during the years ended December 31, 2014, 2013 and 2012 was $10,829, $8,891 and $4,191, respectively.

The table below summarizes restricted stock unit activity for the year ended December 31, 2014:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2014	539	$36.27
Granted	228	45.45
Performance share adjustment	113	30.34
Vested	(337)	32.13
Forfeited	(27)	41.61
Non-vested total at December 31, 2014	516	$41.46

The following table summarizes additional information regarding restricted stock units distributed during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Intrinsic value	$15,539	$13,983	$6,159
Income tax benefit	1,625	2,049	799

If dividends are paid with respect to shares of the Company's common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $962, $648 and $1,168 to retained earnings during the years ended December 31, 2014, 2013 and 2012, respectively.

Employee Stock Purchase Plan

Under the Nonqualified Employee Stock Purchase Plan ("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 December 31, 2014, there were 1,261 shares of common stock reserved for issuance under the ESPP. The Company's ESPP is considered compensatory. During the years ended December 31, 2014, 2013 and 2012, the Company issued 102, 111 and 118 shares, respectively, under the ESPP.

Note 9: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures of the regulated subsidiaries. The components of long-term at December 31 are:

	Rate	Weighted Average Rate	Maturity	2014	2013
Long-term debt of American Water Capital Corp. ("AWCC") (a)					
Private activity bonds and government funded debt					
Fixed rate	1.79%-6.25%	5.33%	2021-2040	$ 231,330	$ 330,732
Senior notes					
Fixed rate	3.40%-8.27%	5.43%	2016-2042	3,753,200	3,312,761
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate (b)	0.00%-6.20%	4.73%	2015-2041	795,472	863,716
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2015-2039	676,500	676,500
Mandatorily redeemable preferred stock	8.47%-9.75%	8.60%	2019-2036	17,252	18,902
Capital lease obligations	12.17%	12.17%	2026	885	913
Long-term debt				5,474,639	5,203,524
Unamortized debt, net (c)				31,168	35,984
Interest rate swap fair value adjustment				3,570	4,724
Total long-term debt				$5,509,377	$5,244,232

(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 $10,190 and $11,920 of variable rate debt with variable-to-fixed interest rate swaps ranging between 3.93% and 4.72%, at December 31, 2014 and 2013, respectively. This debt was assumed via an acquisition in 2013.

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

All $676,500 of the subsidiaries' mortgage bonds and $729,170 of the $795,472 total subsidiaries' private activity bonds and government funded debt at December 31, 2014 are collateralized by utility plant.

Long-term debt indentures contain a number of covenants that, among other things, limit, subject to certain exceptions, the Company from issuing debt secured by the Company's assets. Certain long term notes require the Company to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2014 was 0.55 to 1.00. In addition, the Company has $1,044,990 of notes which include the right to redeem the notes at par in whole or in part from time to time subject to certain restrictions.

The future sinking fund payments and maturities are as follows:

Year	Amount
2015	$ 61,132
2016	53,353
2017	572,775
2018	455,861
2019	164,909
Thereafter	4,166,609

The following long-term debt was issued in 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$500,000
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$510,474

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(1) Included in the issuance amounts for other subsidiaries private activity bonds and government funded debt above was $9,977, which was initially kept in Trust pending the Company's certification that it has incurred qualifying capital expenditures. These issuances have been presented as non-cash in the accompanying Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of these funds by the applicable Trust are reflected as the release of restricted funds and are included in investing activities in the accompanying Consolidated Statements of Cash Flows.

The Company incurred debt issuance costs of $4,593 related to the above issuances. The Company also assumed debt of $1,683 via an acquisition during 2014.

The following long-term debt was retired through optional redemption or payment at maturity during 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2018-2032	$101,085
AWCC	Senior notes—fixed rate	6.00%	2039	59,561
Other subsidiaries [1]	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	78,718
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other subsidiaries	Capital lease payments			28
Total retirements and redemptions				$241,042

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(1) Includes $1,021 of non-cash defeasance via the use of restricted funds.

Interest, net includes interest income of approximately $11,441, $11,753 and $12,652 in 2014, 2013 and 2012, respectively.

One of the principal market risks to which the Company is exposed is changes in interest rates. In order to manage the exposure, the Company follows risk management policies and procedures, including the use of derivative contracts such as swaps. The Company reduces exposure to interest rates by managing commercial paper and debt maturities. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments. The derivative contracts entered into are for periods consistent with the related underlying exposures. The Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company minimizes the counterparty credit risk on these transactions by dealing only with leading, credit-worthy financial institutions having long-term credit ratings of "A" or better.

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 and fixed rate debt fair value balances recorded by the Company as of December 31, 2014 and 2013, and the line items in the Consolidated Balance Sheets in which such amounts are recorded:

Balance sheet classification	2014	2013
Regulatory and other long-term assets Other	$3,636	$4,776
Long-term debt		
Long-term debt	3,570	4,724

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 gain or loss 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 gain or loss on the hedged item in interest expense for the years ended December 31 as follows:

Income statement classification	2014	2013	2012
Interest, net			
Gain (loss) on swap	$(1,140)	$(3,133)	$ 2,085
Gain (loss) on borrowing	1,154	2,991	(1,604)
Hedge ineffectiveness	14	(142)	481

Note 10: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $449,959 (net of discount of $41) and $630,307 (net of discount of $193) at December 31, 2014 and 2013, respectively. At December 31, 2014 there were no borrowings outstanding with maturities greater than three months.

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 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.

AWCC had the following available capacity under its commercial paper program at December 31:

	2014	2013
Commercial paper program	$1,000,000	$1,000,000
Commercial paper program available capacity	550,000	369,500

At December 31, AWCC had the following sub-limits and available capacity under each applicable credit facility:

	2014	2013
Letter of credit sublimit	$150,000	$150,000
Letter of credit available capacity	112,104	108,215

At December 31, 2014 and 2013, the Company had $37,896 and $41,785 of outstanding letters of credit, respectively, all of which were issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2014 and 2013:

	2014	2013(1)
Average borrowings	$548,530	$370,420
Maximum borrowings outstanding	745,000	829,250
Weighted average interest rates, computed on daily basis	0.31%	0.43%
Weighted average interest rates, at Dec 31	0.42%	0.36%

(1) 2013 average borrowings, maximum borrowings outstanding, and weighted average interest rates, computed on daily basis have been revised by immaterial amounts.

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2014 was 0.55 to 1.00.

None of the Company's borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company's credit facility.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on the Company's net position with the counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Note 11: General Taxes

Components of general tax expense from continuing operations for the years ended December 31 are as follows:

	2014	2013	2012
Gross receipts and franchise	$ 96,014	$ 96,044	$ 92,612
Property and capital stock	95,651	94,394	84,448
Payroll	30,698	30,985	32,335
Other general	14,369	12,775	11,363
	$236,732	$234,198	$220,758

Note 12: Income Taxes

Components of income tax expense from continuing operations for the years ended December 31 are as follows:

	2014	2013	2012
State income taxes			
Current	$ 11,055	$ 7,202	$ 26,604
Deferred			
Current	(287)	(405)	(280)
Non-current	30,788	26,821	24,256
	$ 41,556	$ 33,618	$ 50,580
Federal income taxes			
Current	$ 14,767	$ (19,995)	$ 31,482
Deferred			
Current	(1,528)	(1,324)	(2,031)
Non-current	226,572	226,295	178,274
Amortization of deferred investment tax credits	(1,394)	(1,501)	(1,518)
	238,417	203,475	206,207
	$279,973	$237,093	$256,787

A reconciliation of income tax expense from continuing operations at the statutory federal income tax rate to actual income tax expense for the years ended December 31 is as follows:

	2014	2013	2012
Income tax at statutory rate	$248,424	$212,777	$220,636
Increases (decreases) resulting from:			
State taxes, net of federal taxes	27,011	21,852	32,877
Change in valuation allowance	(2)	(455)	143
Flow through differences	3,467	3,217	3,032
Amortization of deferred investment tax credits	(1,394)	(1,501)	(1,518)
Subsidiary preferred dividends	532	584	634
Sec 162(m) Adjustment	980	—	—
Other, net	955	619	983
Actual income tax expense	$279,973	$237,093	$256,787

The following table provides the components of the net deferred tax liability from continuing operations at December 31:

	2014	2013
Deferred tax assets:		
Advances and contributions	$ 502,069	$ 510,122
Deferred investment tax credits	9,452	10,027
Other postretirement benefits	104,723	107,773
Tax losses and credits	197,288	265,640
Pension benefits	124,985	122,143
Unamortized debt discount, net	20,249	20,249
Other	32,159	23,001
	990,925	1,058,955
Valuation allowance	(10,379)	(13,555)
	$ 980,546	$ 1,045,400
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	$ 2,676,574	$ 2,478,617
Income taxes recoverable through rates	75,538	81,135
Deferred business services project expenses	4,584	4,584
Deferred other postretirement benefits	65,157	65,071
Deferred pension benefits	121,317	169,336
Other	71,514	69,632
	3,014,684	2,868,375
	$(2,034,138)	$(1,822,975)

At December 31, 2014 and 2013, the Company recorded federal net operating loss ("NOL") carryforwards of $1,004,705 and $1,182,075, respectively. The 2014 balance does not include $14,325 of windfall tax benefits on stock-based compensation that will not be recorded to equity until the benefit is realized. The Company believes the federal NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company evaluated its ability to fully utilize the existing federal NOL carryforwards in light of the RWE divestiture in November 2009. Under Internal Revenue Code ("I.R.C.") Section 382, an ownership change occurs if there is a greater than fifty percent (50%) change in equity ownership of a company over a three-year period determined by reference to the ownership of persons holding five percent (5%) or more of that company's equity securities. If a company undergoes an ownership change as defined by I.R.C. Section 382, the company's ability to utilize its pre-change NOL carryforwards to offset post-change income may be limited.

The Company believes that the limitation imposed by I.R.C. Section 382 generally should not preclude use of its federal NOL carryforwards, assuming the Company has sufficient taxable income in future carryforward periods to utilize those NOL carryforwards. The Company's federal NOL carryforwards do not begin expiring until 2028.

At December 31, 2014 and 2013, the Company had state NOLs of $542,705 and $628,049, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOL carryforwards will expire between 2015 and 2033.

At December 31, 2014 and 2013, the Company had Canadian NOL carryforwards of $6,498 and $6,323, respectively. The majority of these carryforwards are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The Canadian NOL carryforwards will expire between 2015 and 2033.

The Company had capital loss carryforwards for federal income tax purposes of $3,844 at December 31, 2014 and 2013. The Company has recognized a full valuation allowance for the capital loss carryforwards because the Company does not believe these losses are more likely than not to be recovered.

The Company files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local or non-U.S. income tax examinations by tax authorities for years before 2008. For U.S. federal, tax year 2011 is also closed.

The Company has state income tax examinations in progress and does not expect material adjustments to result.

The Patient Protection and Affordable Care Act (the "PPACA") became law on March 23, 2010, and the Health Care and Education Reconciliation Act of 2010 became law on March 30, 2010, which makes various amendments to certain aspects of the PPACA (together, the "Acts"). The PPACA effectively changes the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. The Acts effectively make the subsidy payments taxable in tax years beginning after December 31, 2012 and as a result, the Company followed its original accounting for the underfunded status of the other postretirement benefits for the Medicare Part D adjustment and recorded a reduction in deferred tax assets and an increase in its regulatory assets amounting to $6,348 and $6,241 at December 31, 2014 and 2013, respectively.

The following table summarizes the changes in the Company's gross liability, excluding interest and penalties, for unrecognized tax benefits:

Balance at January 1, 2013	$180,993
Increases in current period tax positions	27,229
Decreases in prior period measurement of tax positions	(30,275)
Balance at December 31, 2013	$177,947
Increases in current period tax positions	53,818
Decreases in prior period measurement of tax positions	(36,528)
Balance at December 31, 2014	$195,237

The total balance in the table above does not include interest and penalties of $157 and $242 as of December 31, 2014 and 2013, respectively, which is recorded as a component of income tax expense. The majority of the increased tax position is attributable to temporary differences. The increase in 2014 current period tax positions related primarily to the Company's change in tax accounting method filed in 2008 for repair and maintenance costs on its utility plant. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. If the Company sustains all of its positions at December 31, 2014 and 2013, an unrecognized tax benefit of $9,444 and $7,439, respectively, excluding interest and penalties, would impact the Company's effective tax rate.

The following table summarizes the changes in the Company's valuation allowance:

Balance at January 1, 2012	$21,579
Increases in current period tax positions	—
Decreases in current period tax positions	(2,059)
Balance at December 31, 2012	$19,520
Increases in current period tax positions	—
Decreases in current period tax positions	(5,965)
Balance at December 31, 2013	$13,555
Increases in current period tax positions	—
Decreases in current period tax positions	(3,176)
Balance at December 31, 2014	$10,379

Included in 2013 is a discrete tax benefit totaling $2,979 associated with an entity re-organization within the Company's Market-Based Operations segment that allowed for the utilization of state net operating loss carryforwards and the release of an associated valuation allowance.

Note 13: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering eligible employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for all employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. The Company does not participate in a multiemployer plan.

The Company's pension funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, the Company will consider additional contributions if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006. The Company may also consider increased contributions, based on other financial requirements and the plans' funded position. Pension plan assets are invested in a number of actively managed and commingled funds including equity and bond funds, fixed income securities, guaranteed interest contracts with insurance companies, real estate funds and real estate investment trusts ("REITs").

Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. (See Note 6)

The Company also has unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains other postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company's policy is to fund other postretirement benefit costs up to the amount recoverable through rates. Assets of the plans are invested in a number of actively managed commingled funds including equity and bond funds and fixed income securities.

The obligations of the pension and postretirement benefit plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future, the investment strategy is to allocate a significant percentage of assets to equities, which the Company believes will provide the highest return over the long-term period. The fixed income assets are invested in intermediate and long duration debt securities and may be invested in fixed income instruments, such as futures and options, in order to better match the duration of the plan liability.

The Company periodically conducts asset liability studies to ensure the investment strategies are aligned with the profile of the plans' obligations.

None of the Company's securities are included in pension or other postretirement benefit plan assets.

The Company uses fair value for all classes of assets in the calculation of market-related value of plan assets.

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted-average credit rating of A or better by Standard & Poor's.

The investment policies' objectives are focused on reducing the volatility of the plans' funding status over a long term horizon.

The fair values and asset allocations of pension plan assets at December 31, 2014, by asset category, follow:

Asset Category	**Target Allocation 2015**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Percentage of Plan Assets at December 31, 2014**
Cash	—	$ 8,370	$ 8,370	$ —	$ —	—
Equity securities:						
U.S. large cap	24%	342,081	342,081	—	—	24%
U.S. small cap value	8%	116,503	116,503	—	—	8%
International	20%	274,143	—	274,143	—	19%
Fixed income securities:	40%					41%
U.S. Treasury and government bonds	—	140,057	121,351	18,706	—	—
Corporate bonds	—	376,939	—	376,939	—	—
Mortgage-backed securities	—	4,285	—	4,285	—	—
Long duration bond fund	—	6,555	6,555	—	—	—
Guaranteed annuity contracts	—	51,517	—	8,987	42,530	—
Real estate	6%	84,821	—	—	84,821	6%
REITs	2%	22,889	—	22,889	—	2%
Total	100%	$1,428,160	$594,860	$705,949	$127,351	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	Level 3
Balance, January 1, 2014	$ 43,825
Actual return on assets	7,053
Purchases, issuances and settlements, net	76,473
Balance, December 31, 2014	$127,351

The fair values and asset allocations of pension plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Cash	—	$ 12,844	$ 12,844	$ —	$ —	—
Equity securities:						
U.S. large cap	24%	455,068	455,068	—	—	33%
U.S. small cap value	8%	139,571	139,571	—	—	10%
International	20%	295,226	615	294,611	—	21%
Fixed income securities:	40%					35%
U.S. Treasury and government bonds	—	81,200	76,222	4,978	—	—
Corporate bonds	—	209,500	—	209,500	—	—
Mortgage-backed securities	—	116,956	—	116,956	—	—
Long duration bond fund	—	5,177	5,177	—	—	—
Guaranteed annuity contracts	—	52,772	—	8,947	43,825	—
Real estate	6%	—	—	—	—	—
REITs	2%	15,307	—	15,307	—	1%
Total	100%	$1,383,621	$689,497	$650,299	$43,825	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	Level 3
Balance, January 1, 2013	$ 173,625
Actual return on assets	10,384
Purchases, issuances and settlements, net	(140,184)
Balance, December 31, 2013	$ 43,825

The Company's other postretirement benefit plans are partially funded and the assets are held under various trusts. The investments and risk mitigation strategies for the plans are tailored specifically for each trust. In setting new strategic asset mixes, consideration is given to the likelihood that the selected asset allocation will effectively fund the projected plan liabilities and the risk tolerance of the Company. The Company periodically updates the long-term, strategic asset allocations and uses various analytics to determine the optimal asset allocation. Considerations include plan liability characteristics, liquidity characteristics, funding requirements, expected rates of return and the distribution of returns.

In June 2012, the Company implemented a de-risking strategy for the medical bargaining trust within the plan to minimize volatility. As part of the de-risking strategy, the Company revised the asset allocations to increase the matching characteristics of assets relative to liabilities. The initial de-risking asset allocation for the plan was 60% return-generating assets and 40% liability-driven assets. The investment strategies and policies for the plan reflect a balance of liability driven and return-generating considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset— liability matching, asset diversification and hedging. The fixed income target asset allocation matches the bond-like and long-dated nature of the postretirement liabilities. Assets are broadly diversified within asset classes to achieve risk-adjusted returns that in total lower asset volatility relative to the liabilities. The Company assesses the investment strategy regularly to ensure actual allocations are in line with target allocations as appropriate. Strategies to address the goal of ensuring sufficient assets to pay benefits include target allocations to a broad array of asset classes and, within asset classes strategies are employed to provide adequate returns, diversification and liquidity.

The assets of the Company's other trusts, within the other postretirement benefit plans, have been primarily invested in equities and fixed income funds. The assets under the various other postretirement benefit trusts are invested differently based on the assets and liabilities of each trust. The obligations of the other postretirement benefit plans are dominated by obligations for the medical bargaining trust. Thirty-nine percent and four percent of the total postretirement plan benefit obligations are related to the medical non-bargaining and life insurance trusts, respectively. Because expected benefit payments related to the benefit obligations are so far into the future, and the size of the medical non-bargaining and life insurance trusts' obligations are large compared to each trusts' assets, the investment strategy is to allocate a significant portion of the assets' investment to equities, which the Company believes will provide the highest long-term return and improve the funding ratio.

The Company engages third party investment managers for all invested assets. Managers are not permitted to invest outside of the asset class (e.g., fixed income, equity, alternatives) or strategy for which they have been appointed. Investment management agreements and recurring performance and attribution analysis are used as tools to ensure investment managers invest solely within the investment strategy they have been provided. Futures and options may be used to adjust portfolio duration to align with a plan's targeted investment policy.

In order to minimize asset volatility relative to the liabilities, a portion of plan assets is allocated to fixed income investments that are exposed to interest rate risk. Increases in interest rates generally will result in a decline in the value of fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities. Within equities, risk is mitigated by constructing a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process.

Actual allocations to each asset class vary from target allocations due to periodic investment strategy updates, market value fluctuations, the length of time it takes to fully implement investment allocation, and the timing of benefit payments and contributions. The asset allocation is rebalanced on a quarterly basis, if necessary.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2014, by asset category, follow:

Asset Category	Target Allocation 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2014
Bargain VEBA:						
Cash	—	$ 189	$ 189	$ —	—	—
Equity securities:						
U.S. large cap	9%	34,168	34,168	—	—	9%
U.S. small cap value	—	—	—	—	—	—
International	11%	40,232	40,232	—	—	10%
Fixed income securities:	80%					81%
U.S. Treasury securities and government bonds	—	155,087	155,087	—	—	—
Corporate bonds	—	168,317	—	168,317	—	—
Long duration bond fund	—	3,245	3,245	—	—	—
Future and option contracts (a)	—	387	387	—	—	—
Total bargain VEBA	100%	$401,625	$233,308	$168,317	—	100%
Non-bargain VEBA:						
Cash	—	$ 636	$ 636	$ —	—	—
Equity securities:						
U.S. large cap	21%	21,966	21,966	—	—	21%
U.S. small cap value	21%	21,123	21,122	1	—	21%
International	28%	28,611	28,611	—	—	28%
Fixed income securities:	30%					30%
Core fixed income bond fund	—	30,762	30,762	—	—	—
Total non-bargain VEBA	100%	$103,098	$103,097	$ 1	—	100%
Life VEBA:						
Cash	—	$ 65	$ 65	$ —	—	—
Equity securities:						
U.S. large cap	70%	4,924	4,924	—	—	67%
Fixed income securities:	30%					33%
Core fixed income bond fund	—	2,336	2,336	—	—	—
Total life VEBA	100%	$ 7,325	$ 7,325	$ —	—	100%
Total	100%	$512,048	$343,730	$168,318	—	100%

(a) Includes cash for margin requirements.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Bargain Veba:						
Cash	—	$ 689	$ 689	$ —	—	—
Equity securities:						
U.S. large cap	18%	72,108	72,108	—	—	19%
U.S. small cap value	7%	26,574	26,574	—	—	7%
International	15%	55,888	55,888	—	—	15%
Fixed income securities:	60%					59%
U.S. Treasury securities and government bonds	—	95,010	91,578	3,432	—	—
Corporate bonds	—	117,843	—	117,843	—	—
Long duration bond fund	—	2,043	2,043	—	—	—
Future and option contracts (a)	—	620	620	—	—	—
Total bargain VEBA	100%	$370,775	$249,500	$121,275	—	100%
Non-bargain VEBA:						
Cash	—	$ 3,451	$ 3,451	$ —	—	—
Equity securities:						
U.S. large cap	21%	41,430	41,430	—	—	43%
U.S. small cap value	21%	—	—	—	—	0%
International	28%	27,739	27,739	—	—	29%
Fixed income securities:	30%					28%
Core fixed income bond fund	—	23,563	23,563	—	—	—
Total non-bargain VEBA	100%	$ 96,183	$ 96,183	$ —	—	100%
Life VEBA:						
Cash	—	$ 27	$ 27	$ —	—	—
Equity securities:						
U.S. large cap	70%	5,527	5,527	—	—	71%
Fixed income securities:	30%					29%
Core fixed income bond fund	—	2,206	2,206	—	—	—
Total Life VEBA	100%	$ 7,760	$ 7,760	$ —	—	100%
Total	100%	$474,718	$353,443	$121,275	—	100%

(a) Includes cash for margin requirements.

Valuation Techniques Used to Determine Fair Value

Cash—Cash and investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash and are included in the recurring fair value measurements hierarchy as Level 1.

Equity securities—For equity securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, that the Company is able to independently corroborate. Equity securities are valued based on quoted prices in active markets and categorized as Level 1. Certain equities, such as international securities held in the pension plan are invested in commingled funds. These funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since net asset value is not directly observable or not available on a nationally recognized securities exchange for the commingled funds, they are categorized as Level 2.

Fixed-income securities—The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets that the Company can corroborate. The fair values of corporate bonds, mortgage backed securities, certain government bonds and a guaranteed annuity contract are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, and have been categorized as Level 2 because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate. Certain other guaranteed annuity contracts are categorized as Level 3 because the investments are not publicly quoted. The fund administrator values the fund using the net asset value per fund share, derived from the quoted prices in active markets of the underlying securities. Since these valuation inputs are not highly observable, these contracts have been categorized as Level 3. Exchange-traded future and option positions are reported in accordance with changes in daily variation margins that are settled daily. Exchange-traded options and futures, for which market quotations are readily available, are valued at the last reported sale price or official closing price on the primary market or exchange on which they are traded and are classified as Level 1.

Real estate fund—Real estate fund is valued using the net asset value based on valuation models of underlying securities which generally include significant unobservable inputs that cannot be corroborated using verifiable observable market data. Real estate fund is categorized as Level 3 as the fund uses significant unobservable inputs for fair value measurement.

REITs—REITs are invested in commingled funds. Commingled funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since the net asset value is not directly observable for the commingled funds, they are categorized as Level 2.

The following table provides a rollforward of the changes in the benefit obligation and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Change in benefit obligation				
Benefit obligation at January 1	$1,494,132	$1,621,244	$ 561,923	$ 687,082
Service cost	31,773	37,872	11,058	15,282
Interest cost	76,652	68,096	28,605	28,700
Plan participants' contributions	—	—	2,625	2,514
Actuarial (gain) loss	255,762	(180,688)	123,342	(148,410)
Gross benefits paid	(111,863)	(52,392)	(26,440)	(25,263)
Federal subsidy	—	—	2,159	2,018
Benefit obligation at December 31	$1,746,456	$1,494,132	$ 703,272	$ 561,923
Change in Plan Assets				
Fair value of plan assets at January 1	$1,383,621	$1,157,697	$ 474,718	$ 433,260
Actual return on plan assets	116,363	208,821	48,989	36,202
Employer contributions	40,039	69,495	12,156	28,005
Plan participants' contributions	—	—	2,625	2,514
Benefits paid	(111,863)	(52,392)	(26,440)	(25,263)
Fair value of plan assets at December 31	$1,428,160	$1,383,621	$ 512,048	$ 474,718
Funded status at December 31	$ (318,296)	$ (110,511)	$(191,224)	$ (87,205)
Amounts recognized in the balance sheet consist of:				
Noncurrent asset	$ —	$ —	$ 1,326	$ 1,271
Current liability	(1,928)	(1,969)	(48)	(57)
Noncurrent liability	(316,368)	(108,542)	(192,502)	(88,419)
Net amount recognized	$ (318,296)	$ (110,511)	$(191,224)	$ (87,205)

Benefits paid in 2014 includes $55,579 from a one-time lump sum window offering to retired vested participants.

The following table provides the components of the Company's accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Net actuarial loss	$379,743	$145,376	$119,566	$ 17,632
Prior service cost (credit)	3,694	4,418	(12,330)	(14,519)
Net amount recognized	$383,437	$149,794	$107,236	$ 3,113
Regulatory assets	$248,641	$ 90,380	$107,236	$ 3,113
Accumulated other comprehensive income	134,796	59,414	—	—
	$383,437	$149,794	$107,236	$ 3,113

At December 31, 2014 and 2013, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2014	2013
Projected benefit obligation	$1,746,000	$1,494,000
Fair value of plan assets	1,428,000	1,384,000

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2014	2013
Accumulated benefit obligation	$1,616,000	$ 43,000
Fair value of plan assets	1,428,000	17,000

The accumulated postretirement benefit obligation exceeds plan assets for all of the Company's other postretirement benefit plans.

In August 2006, the Pension Protection Act ("PPA") was signed into law in the U.S. The PPA replaces the funding requirements for defined benefit pension plans by requiring that defined benefit plans contribute to 100% of the current liability funding target over seven years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being "at risk" and additional funding requirements and benefit restrictions may apply. The PPA was effective for the 2008 plan year with short-term phase-in provisions for both the funding target and at-risk determination. The Company's qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the PPA. The Company is proactively monitoring the plan's funded status and projected contributions under the law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for the qualified defined benefit pension plan are determined by government regulations and not by accounting pronouncements. The Company plans to contribute amounts at least equal to the greater of the minimum required contributions or the normal cost in 2015 to the qualified pension plans. The Company plans to contribute to its 2015 other postretirement benefit cost for rate-making purposes.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

	Pension Benefits	Other Benefits
2015 expected employer contributions		
To plan trusts	$28,000	$26,500
To plan participants	1,929	104

The Company made 2015 contributions to fund pension benefits and other benefits of $6,100 and $6,632, respectively, through February 2015.

The following table reflects the net benefits expected to be paid from the plan assets or the Company's assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2015	$ 63,355	$ 27,897	$ 2,113
2016	69,673	30,672	2,295
2017	75,894	33,518	2,486
2018	82,063	36,502	2,678
2019	88,635	39,172	2,892
2020—2024	528,913	226,602	18,220

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits			Other Benefits		
	2014	2013	2012	2014	2013	2012
Weighted-average assumptions used to determine December 31 benefit obligations						
Discount rate	4.24%	5.12%	4.17%	4.24%	5.10%	4.16%
Rate of compensation increase	3.12%	3.15%	3.19%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 6.75% in 2014 to 5.00% in 2021+	graded from 7.00% in 2013 to 5.00% in 2019+	graded from 7.25% in 2012 to 5.00% in 2019+
Weighted-average assumptions used to determine net periodic cost						
Discount rate	5.12%	4.17%	5.02%	5.10%	4.16%	5.05%
Expected return on plan assets	6.91%	7.49%	7.75%	5.87%	6.99%	7.41%
Rate of compensation increase	3.15%	3.19%	3.25%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 7.00% in 2014 to 5.00% in 2019+	graded from 7.25% in 2013 to 5.00% in 2019+	graded from 7.50% in 2012 to 5.00% in 2019+

N/A—Assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. At year-end 2011, the Company began using an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a universe containing the majority of U.S.-issued AA-graded corporate bonds, all of which were non callable (or callable with make-whole provisions). Historically, for each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return, prior to administrative and investment management fees, for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company's pension expense increases as the expected return on assets decreases.

In the determination of year end 2014 projected benefit plan obligations, the Company adopted a new table based on the Society of Actuaries RP 2014 mortality table including a generational BB-2D projection scale. The adoption resulted in a significant increase to pension and other postretirement benefit plans' projected benefit obligations.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 5,943	$ (4,887)
Effect on other postretirement benefit obligation	$105,967	$(86,179)

The following table provides the components of net periodic benefit costs for the years ended December 31:

	2014	2013	2012
Components of net periodic pension benefit cost			
Service cost	$ 31,773	$ 37,872	$ 34,209
Interest cost	76,652	68,096	70,866
Expected return on plan assets	(94,838)	(88,429)	(79,272)
Amortization of:			
Prior service cost (credit)	724	724	723
Actuarial (gain) loss	(131)	37,170	29,636
Settlement loss	—	—	7,135
Net periodic pension benefit cost	$ 14,180	$ 55,433	$ 63,297
Other changes in plan assets and benefit obligations recognized in other comprehensive income			
Amortization of prior service credit (cost)	$ (166)	$ (174)	$ (176)
Current year actuarial (gain) loss	46,119	(73,472)	26,425
Amortization of actuarial gain (loss)	31	(8,911)	(7,301)
Total recognized in other comprehensive income	$ 45,984	$(82,557)	$ 18,948
Total recognized in net periodic benefit cost and comprehensive income	$ 60,164	$(27,124)	$ 82,245
Components of net periodic other postretirement benefit cost			
Service cost	$ 11,058	$ 15,282	$ 14,207
Interest cost	28,605	28,700	31,570
Expected return on plan assets	(27,500)	(30,285)	(28,711)
Amortization of:			
Prior service cost (credit)	(81)	(2,189)	(1,915)
Actuarial (gain) loss	(2,189)	11,128	9,537
Other	—	—	(696)
Net periodic other postretirement benefit cost	$ 9,893	$ 22,636	$ 23,992

The Company's policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements.

Cumulative gains and losses that are in excess of 10% of the greater of either the projected benefit obligation or the fair value of plan assets are amortized over the expected average remaining future service of the current active membership for the plans.

The estimated amounts that will be amortized from accumulated other comprehensive income and regulatory assets into net periodic benefit cost in 2015 are as follows:

	Pension Benefits	Other Benefits
Actuarial (gain) loss	$25,108	$ 5,009
Prior service cost (credit)	754	(2,189)
Total	$25,862	$ 2,820

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. Plan expenses totaled $7,595 for 2014, $7,926 for 2013 and $7,990 for 2012. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 14: Commitments and Contingencies

Commitments

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legal and binding contractual obligations amounted to $217,082 at December 31, 2014.

The Company's regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. Purchased water expenses were approximately $124,334, $114,471 and $115,426 for the years ended December 31, 2014, 2013 and 2012, respectively. Future annual commitments related to minimum quantities of purchased water having non-cancelable terms in excess of one year at December 31, 2014 are $55,141 in 2015, $50,936 in 2016, $44,175 in 2017, $43,034 in 2018, $43,098 in 2019 and $441,206 thereafter.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company's military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenue of $2,543,778 at December 31, 2014. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company's Operations and Maintenance agreements with municipalities and other customers expire between 2015 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $865,803 at December 31, 2014. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2014, the Company has accrued approximately $5,000 as probable costs and it is reasonably possible that additional losses could range up to $30,100 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

On October 13, 2014, we entered into a settlement agreement with the Utility Workers Union of America ("UWUA") designed to resolve a dispute between our company and the labor unions representing employees in the Regulated Businesses ("the Unions"). Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, we agreed to make a $10 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of our last, best and final offer. The majority of the distributions are expected to be used to reimburse employees for medical claims which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates – Active Employees VEBA (the “VEBA Trust”), to which we previously have made contributions.

The Unions approved the settlement agreement on October 30, 2014, and the National Labor Relations Board (the “NLRB”) approved the settlement agreement on October 31, 2014. The NLRB, UWUA and the Company filed a joint stipulation to dismiss the petition for review. The Seventh Circuit voluntarily dismissed all the parties’ appeals on December 16, 2014. The NLRB will dismiss the unfair labor practice charge pending on the national benefits dispute when we have complied with the settlement agreement.

Note 15: Earnings per Common Share

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

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

	Years Ended December 31,		
	2014	2013	2012
Basic			
Income from continuing operations	$429,841	$370,844	$373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	423,108	369,264	358,070
Less: Distributed earnings to common shareholders	217,253	150,038	214,541
Less: Distributed earnings to participating securities	63	60	86
Undistributed earnings	205,792	219,166	143,443
Undistributed earnings allocated to common shareholders	205,735	219,082	143,385
Undistributed earnings allocated to participating securities	57	84	58
Total income from continuing operations available to common shareholders, basic	$429,721	$370,700	$373,458
Total income available to common shareholders, basic	$422,988	$369,120	$357,926
Weighted-average common shares outstanding, basic	178,888	177,814	176,445
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03

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

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

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

	Years Ended December 31,		
	2014	2013	2012
Diluted			
Total income from continuing operations available to common shareholders, basic	$429,721	$370,700	$373,458
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Total income available to common shareholders, basic	422,988	369,120	357,926
Undistributed earnings for participating securities	57	84	58
Total income from continuing operations available to common shareholders, diluted	$429,778	$370,784	$373,516
Total income available to common shareholders, diluted	$423,045	$369,204	$357,984
Weighted-average common shares outstanding, basic	178,888	177,814	176,445
Common stock equivalents:			
Restricted stock units	454	510	618
Stock options	463	730	607
Employee stock purchase plan	1	2	1
Weighted-average common shares outstanding, diluted	179,806	179,056	177,671
Diluted earnings per share (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01

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

The following potentially dilutive common stock equivalents were not included in the earnings per share calculations for the years ended December 31 because they were anti-dilutive:

	2014	2013	2012
Stock options	323	327	619
Restricted stock units where certain performance conditions were not met	—	20	19

Note 16: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

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

	Carrying Amount	At Fair Value as of December 31, 2014			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 17,151	$ —	$ —	$ 22,167	$ 22,167
Long-term debt (excluding capital lease obligations)	5,491,341	2,874,622	1,474,708	2,055,058	6,404,388

	Carrying Amount	At Fair Value as of December 31, 2013			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 18,827	$ —	$ —	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

Fair Value Measurements

To increase consistency and comparability in fair value measurements, FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds and money market funds.
- Level 2—inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.
- Level 3—unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of December 31, 2014 and 2013, respectively:

Recurring Fair Value Measures	At Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$45,182	$ —	$—	$45,182
Rabbi trust investments	—	11,751	—	11,751
Deposits	4,158	—	—	4,158
Mark-to-market derivative asset	—	3,636	—	3,636
Total assets	49,340	15,387	—	64,727
Liabilities:				
Deferred compensation obligation	—	11,765	—	11,765
Mark-to-market derivative liability	—	1,012	—	1,012
Total liabilities	—	12,777	—	12,777
Total net assets	$49,340	$ 2,610	$—	$51,950

Recurring Fair Value Measures	At Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$29,259	$ —	$—	$29,259
Rabbi trust investments	—	444	—	444
Deposits	1,901	—	—	1,901
Mark-to-market derivative asset	—	4,776	—	4,776
Total assets	31,160	5,220	—	36,380
Liabilities:				
Deferred compensation obligation	—	11,928	—	11,928
Mark-to-market derivative liability	—	1,276	—	1,276
Total liabilities	—	13,204	—	13,204
Total net assets (liabilities)	$31,160	$ (7,984)	$—	$23,176

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to year end are classified as current. Also included in the above restricted funds in 2014 is $22,366 of money market funds held in trust for active employee benefits.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments and mutual funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

See Note 13 for the Company's fair value of qualified pension and postretirement welfare plans' assets.

Non-recurring Fair Value Measurements

As discussed in Note 7, the Company recognized continuing operations goodwill impairment charges of $0 for each of the years ended December 31, 2014, 2013 and 2012, respectively. The Company's goodwill valuation model includes significant unobservable inputs and falls within Level 3 of the fair value hierarchy.

Note 17: Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $21,885 for 2014, $23,351 for 2013 and $27,945 for 2012. The operating leases for facilities will expire over the next 20 years and the operating leases for equipment will expire over the next five years. Certain operating leases have renewal options ranging from one to five years.

At December 31, 2014, the minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are $14,007 in 2015, $11,898 in 2016, $10,970 in 2017, $9,763 in 2018, $9,457 in 2019 and $81,617 thereafter.

The Company has a series of agreements with various public entities (the "Partners") to establish certain joint ventures, commonly referred to as "public-private partnerships." Under the public-private partnerships, the Company constructed utility plant, financed by the Company and the Partners constructed utility plant (connected to the Company's property), financed by the Partners. The Company agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs"), issued by the Partners under a state Industrial Development Bond and Commercial Development Act. The Company leased back the total facilities, including portions funded by both the Company and the Partners, under leases for a period of 40 years.

The leases related to the portion of the facilities funded by the Company have required payments from the Company to the Partners that approximate the payments required by the terms of the IDBs from the Partners to the Company (as the holder of the IDBs). As the ownership of the portion of the facilities constructed by the Company will revert back to the Company at the end of the lease, the Company has recorded these as capital leases. The lease obligation and the receivable for the principal amount of the IDBs are presented by the Company on a net basis. The gross cost of the facilities funded by the Company recognized as a capital lease asset was $156,819 and $158,115 at December 31, 2014 and 2013, respectively, which is presented within utility plant. The future payments under the lease obligations are equal to and offset by the payments receivable under the IDBs.

At December 31, 2014, the minimum annual future rental commitment under the operating leases for the portion of the facilities funded by the Partners that have initial or remaining non-cancelable lease terms in excess of one year included in the preceding minimum annual rental commitments are $3,755 in 2015 through 2019, and $73,318 thereafter.

Note 18: Segment Information

The Company has two operating segments referred to as the Regulated Businesses and Market-Based Operations segments. The Company's chief operating decision maker regularly reviews the operating results of the Regulated Businesses and Market-Based Operations segments to assess segment performance and allocate resources. The evaluation of segment performance and the allocation of resources are based on several measures. The measure that is most consistent with that used by management is income from continuing operations before income tax.

The Regulated Businesses segment includes the Company's 18 utility subsidiaries in continuing operations that provide water and wastewater services to customers in 16 U.S. states. The Market-Based Operations segment is comprised of market-based businesses that provide a broad range of water and wastewater services and products including homeowner water and sewer line maintenance services and water and wastewater facility operations and maintenance services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. (See Note 2) The Regulated Businesses and Market-Based Operations segment information includes intercompany costs that are allocated by American Water Works Service Company, Inc. and intercompany interest that is charged by AWCC, which are eliminated to reconcile to the consolidated results of operations. Inter-segment revenues, which are primarily recorded at cost plus mark-up that approximates current market prices, includes leased office space, furniture and equipment provided by the Company's market-based subsidiaries to its regulated subsidiaries. Other includes corporate costs that are not allocated to the Company's subsidiaries, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the Acquisitions that have not been allocated to the segments for evaluation of segment performance and allocation of resource purposes. The adjustments related to the Acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management. The following table includes the Company's summarized segment information:

	As of or for the Year Ended December 31, 2014			
	Regulated Businesses	**Market-Based Operations**	**Other**	**Consolidated**
Net operating revenues	$ 2,674,329	$354,679	$ (17,680)	$ 3,011,328
Depreciation and amortization	394,097	5,790	24,197	424,084
Total operating expenses, net	1,725,651	299,549	(16,448)	2,008,752
Income from continuing operations before income taxes	707,449	57,539	(55,174)	709,814
Total assets	14,342,837	314,253	1,473,866	16,130,956
Capital expenditures	946,306	9,813	—	956,119
Capital expenditures of discontinued operations (included in capital expenditures above)	—	12	—	12

	As of or for the Year Ended December 31, 2013			
	Regulated Businesses	**Market-Based Operations**	**Other**	**Consolidated**
Net operating revenues (1)	$ 2,593,918	$302,541	$ (17,523)	$ 2,878,936
Depreciation and amortization (1)	375,939	6,012	24,766	406,717
Total operating expenses, net (1)	1,700,052	252,302	(21,734)	1,930,620
Income from continuing operations before income taxes (1)	654,834	53,104	(100,001)	607,937
Total assets	13,447,696	286,048	1,354,398	15,088,142
Assets of discontinued operations (included in total assets above)	—	7,761	—	7,761
Capital expenditures	973,301	6,951	—	980,252
Capital expenditures of discontinued operations (included in capital expenditures above)	—	517	—	517

	As of or for the Year Ended December 31, 2012			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues (1)	$ 2,564,434	$307,366	$ (17,874)	$ 2,853,926
Depreciation and amortization (1)	349,629	5,560	25,213	380,402
Total operating expenses, net (1)	1,685,734	266,005	(21,917)	1,929,822
Income from continuing operations before income taxes (1)	649,117	44,948	(63,676)	630,389
Total assets	12,680,856	260,255	1,777,865	14,718,976
Assets of discontinued operations (included in total assets above)	—	7,646	—	7,646
Capital expenditures	921,500	7,074	—	928,574
Capital expenditures of discontinued operations (included in capital expenditures above)	2,884	705	—	3,589

(1) The information has been restated to reflect the impact of discontinued operations, as applicable. See Note 3 for additional details on the Company's discontinued operations.

Note 19: Unaudited Quarterly Data

The following table sets forth certain supplemental unaudited consolidated quarterly financial data for each of the four quarters in the years ended December 31, 2014 and 2013, respectively. The operating results for any quarter are not indicative of results that may be expected for a full year or any future periods:

2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Net operating revenues	$679,003	$754,778	$846,169	$731,378
Operating income	187,442	254,788	337,285	223,061
Income from continuing operations	69,113	110,174	156,608	93,946
Net income	68,123	109,299	152,185	93,501
Basic earnings per common share:				
Income from continuing operations	0.39	0.62	0.87	0.52
Net income	0.38	0.61	0.85	0.52
Diluted earnings per common share:				
Income from continuing operations	0.39	0.61	0.87	0.52
Net income	0.38	0.61	0.85	0.52

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Net operating revenues	$631,939	$718,565	$822,190	$706,242
Operating income	165,324	242,031	323,166	217,795
Income from continuing operations	58,445	101,369	149,909	61,121
Net income	57,643	101,263	150,665	59,693
Basic earnings per common share:				
Income from continuing operations	0.33	0.57	0.84	0.34
Net income	0.32	0.57	0.85	0.33
Diluted earnings per common share:				
Income from continuing operations	0.33	0.57	0.84	0.34
Net income	0.32	0.57	0.84	0.33

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of December 31, 2014 pursuant to Rule15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2014, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting, as of December 31, 2014, using the criteria described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the framework in Internal Control—Integrated Framework (2013) issued by COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There were no changes to our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. The program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions. The Program will be conducted in accordance with Rule 10b-18 of the Exchange Act, as amended, and, to facilitate repurchases, the Company has also entered into with a broker a Rule 10b5-1 share repurchase plan. By having the Program administered through a Rule 10b5-1 plan, the Company will be able to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the Rule 10b5-1 parameters at its discretion.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information required by this item and not given below, is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the fiscal year covered by this report, under the captions entitled "Nominees for Election as Directors," "Information Relative to the Board of Directors and Committees of the Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Code of Ethics and Corporate Governance Guidelines."

We have adopted a Code of Ethics, which applies to directors and employees. The full text of the Code of Ethics is publicly available on our website at *http://www.amwater.com*. We intend to post on our website any amendments to certain provisions of our Code of Ethics and any waivers of such provisions granted to principal officers.

Name	Age	Office and Employment During Last Ten Years
Susan N. Story	55	Ms. Story was elected President and Chief Executive Officer (CEO) on May 9, 2014. Prior to that she served as Senior Vice President and Chief Financial Officer from April 2013 until May 2014. She was previously employed for over 30 years by Southern Company, which owns and operates electric utilities in four states, and also is engaged in electric wholesale generation and telecommunications, including both wireless and wireline, fiber optic communications. Ms. Story was an executive officer of Southern Company from 2003 until she joined the Company. In addition, from January 2011 until she joined the Company, she served as the President and Chief Executive Officer of Southern Company Services, which provides shared services for all of Southern Company's subsidiaries, including information technology and cyber security efforts, human resources, procurement and supply chain management, marketing services, customer research and system transportation functions. From 2003 to December 2010, she was the President and Chief Executive Officer of Gulf Power Company, an electric utility serving the northwestern portion of Florida. Ms. Story is an independent board member of Raymond James Financial and serves on the boards of the Bipartisan Policy Center in Washington, DC and the Moffitt Cancer Center in Tampa, FL.
John R. Bigelow	60	Mr. Bigelow has been our Senior Vice President of Business Services since November 2011 and became the Chair of the Board of Directors for American Water Works Service Company in January 2012. From 2007 until his new appointment in November 2011, Mr. Bigelow was President of New Jersey American Water (NJAWC). Mr. Bigelow joined American Water in 1994 and held a number of senior management positions during his tenure, including American Water's Senior Vice President of Regulatory Programs and Enterprise Risk Management. From December 2003 to February 2006, Mr. Bigelow served as American Water's Chief Financial Officer, Vice President and Treasurer of NJAWC, and Director, Vice President and Treasurer of New Jersey American Resources Co. Mr. Bigelow began his career with GPU System Companies, where he spent 18 years in various leadership roles in the finance area.

Name	Age	Office and Employment During Last Ten Years
Sharon Cameron	58	Ms. Cameron has been President of American Water Enterprises, our Market-Based Operations, since September 2010. She also serves as President of American Water Resources, Inc., a business she has been leading since 2002. Prior to joining American Water, Ms. Cameron was Principal of Marketing Solutions, a marketing consulting firm she launched in 1998, and was a consultant to American Water on the Homeowner Services business. Previously, Ms. Cameron served as Vice President of Marketing and Sales at Comcast Corporation (New Jersey), Senior Marketing Manager at Menley & James Laboratories, and Marketing Manager at Campbell Soup Company.
Mark Chesla	55	Mr. Chesla has been our Vice President and Controller since November 2007. From 2001 to November 2007, Mr. Chesla was Vice President and Controller of Oglethorpe Power Corporation, in Atlanta, Georgia, where he served as that company's chief accounting officer. In this capacity he was responsible for all aspects of the accounting, internal financial management, regulatory and SEC reporting functions. Mr. Chesla was Vice President, Administration/Controller of SouthStar Energy Services LLC, in Atlanta, Georgia, from 1998 to 2001. Earlier, he held management positions with several other companies, including Piedmont Natural Gas Co., Inc., Aegis Technologies, Inc., Deloitte & Touche LLP and Carolina Power & Light Company.
Deborah Degillio	43	Ms. Degillio has been our Vice President and Treasurer since January 1, 2015. From 2013 until her new appointment in December 2014, Ms. Degillio served as VP of Finance of American Water Enterprises, our Market-Based Operations. Ms. Degillio joined American Water in 2007 as Director of Financial Planning and Analysis, supporting California, Arizona, New Mexico and Hawaii and was named Vice President of the Eastern Division Finance team in 2009. As Vice President of the Eastern Division, Ms. Degillio managed a team of over 30 professionals and was responsible for financial analysis and planning, as well as rates strategy and execution for nine states in American Water's regulated operations. Prior to joining American Water, Ms. Degillio held a number of roles at MCR Performance Solutions, a consulting firm in the energy sector, managing enterprise risk management and regulatory matters and providing financial management consulting for a number of large utilities. She began her career at CSC Planmetrics, a strategic consulting firm serving the utilities industry, where she supported electric and gas utilities through mergers and acquisitions, marketing plans and projects focused on process change.
Maureen Duffy	45	Ms. Duffy has been our Vice President of Corporate Communications and External Affairs since September 2011. From June 2011 to September 2011, Ms. Duffy served as the Executive Director of Corporate Communications and External Affairs. From September 2008 to June 2011, Ms. Duffy served as Director of External Communications, and from July 2006 until September 2008, she served as Director of Internal Communications. From November 1999 to July 2006, she held various positions with New Jersey American Water, which included Government Affairs/Media Specialist, Communications Manager and Director of Corporate Communications. Prior to joining American Water, Ms. Duffy reported and produced news for WNJN/WNET-TV.

Name	Age	Office and Employment During Last Ten Years
Walter J. Lynch	52	Mr. Lynch has served as our President and Chief Operating Officer of Regulated Operations since March 2010, and President of Regulated Operations since July 2008. Prior to that date, he served as Executive Vice President, Eastern Division. He also served as President of New Jersey American Water, Long Island American Water and our Northeast Region. Mr. Lynch joined us in 2001 and served as President of our Products and Services Group, where he was responsible for overseeing our Market-Based Operations. Prior to this, he was President of the Southwest Region of American Water Services. Mr. Lynch has more than 20 years of experience in engineering, sales and marketing, operations and business development. Before joining us, he was involved with various start-up and growth organizations in the environmental industry. Mr. Lynch worked for Mobil Oil Corporation following his departure from the United States Army where he attained the rank of Captain. In addition, Mr. Lynch is on the Board of Directors of the National Association of Water Companies and serves on its Executive Committee.
Kathy L. Pape	62	Ms. Pape has been our Senior Vice President, Mid-Atlantic Division since November 2011, and President of Pennsylvania American Water since July 2007. From 1999 to 2007, Ms. Pape served as Senior Vice President, Treasurer and Rate Counsel for Aqua America, Inc. and was part of the team that grew the company from one state to fourteen. From 1994 to 1999, Ms. Pape was employed by us as Regional Counsel and Finance Manager, where her responsibilities included rates and regulatory affairs, finance, budgeting and customer service for 10 states. Prior to 1994, Ms. Pape was Vice President-Rates for General Waterworks Management and Service Co., Assistant Counsel to the Pennsylvania Public Utility Commission and Assistant Consumer Advocate for the Pennsylvania Office of Consumer Advocate. Ms. Pape chairs the Pennsylvania Business Council and its Policy Roundtable, is on the Board of the PA Chamber and numerous non-profit boards. Ms. Pape holds a bachelor of arts in political science from Edinboro University, a JD from the Dickinson School of Law and an LLM in Taxation from Villanova University School of Law.
Nick O. Rowe	57	Mr. Rowe has been the Senior Vice President of our Central Division since November 2011. From January 2009 until his new appointment in November 2011, Mr. Rowe was Senior Vice President of our Eastern Division, and from 2006 to January 2011, he was President of Kentucky American Water. From 2005 to 2006, he served as Vice President of Service Delivery Operations for the Southeast Region of American Water. From 2003 to 2005, he served as Vice President, Business Change for American Water in New Jersey, and from 1998 to 2003, Mr. Rowe was Vice President of Operations for Kentucky American Water. From 1987 to 1998, he served in various management positions with responsibility for the day-to-day operations of American Water facilities in several states including Virginia, West Virginia, and Pennsylvania. Mr. Rowe is involved with various regulatory agencies and civic and professional organizations. He is also a member of the American Water Works Association and the National Association of Water Companies.

Name	Age	Office and Employment During Last Ten Years
Michael Sgro	56	Mr. Sgro became our Senior Vice President, General Counsel and Secretary on February 18, 2015. Prior to that he had been serving as our Corporate Secretary and Interim General Counsel of American Water Works Company, Inc. and responsible for all legal affairs of the Company, including corporate governance and other corporate matters, SEC matters, ethics and compliance matters. Prior to his new position, he served as the Divisional General Counsel Northeast Division of American Water, directing all legal matters for American Water's Northeast Division, consisting of New Jersey American Water, New York American Water, and several non-regulated entities. He was also responsible for Government Affairs for New Jersey American Water. Prior to joining us in 1993, he was an Associate with Dechert LLP.
Mark S. Smith	55	Mr. Smith has been our Vice President and Chief Information Officer since September 2012. From 2008 to 2012, Mr. Smith served as our ITS Senior Director, Business Application Development & Project Management Office. Prior to joining American Water, Mr. Smith, held several roles with Siemens and Shared Medical Systems (pre-acquisition) over a course of 23 years, including Group Manager of Management Information Systems and Director of the Shared Services Office where he was responsible for enterprise and system level architecture definition, administration and implementation for internal development as well as custom commercial applications.
Mark F. Strauss	63	Mr. Strauss has been our Senior Vice President of Corporate Strategy and Business Development since September 2010. From December 2006, until his new appointment in September 2010, Mr. Strauss was President of American Water Enterprises, managing our Market-Based Operations. Previously, Mr. Strauss was President and Chief Executive Officer of a line of business that we sold in 2012, Applied Water Management Group, which provided customized water and wastewater management solutions to real estate developers, industrial clients and small to midsized communities nationwide. Mr. Strauss joined Applied Water Management Group in 1997 as Corporate Counsel and Secretary. He was promoted to Chief Operating Officer in 2002, a position he held until his appointment as Division President and Chief Executive Officer in 2003. Earlier, he served as Vice President and General Counsel of Vizzoni Brothers Construction, Inc. Mr. Strauss serves as a director of Skylands Community Bank. Mr. Strauss was also an associate at the law firms of Ozzard, Rizzolo, Klein, Mauro & Savo and Toolan, Romond, Abbot and Domenichetti.
Linda G. Sullivan	51	Ms. Sullivan has been our Senior Vice President and Chief Financial Officer since May 9, 2014. Prior to joining our company, she was employed for 22 years with Edison International companies. Beginning in July 2009, she served as the Senior Vice President and Chief Financial Officer ("CFO") of Southern California Edison Company, one of the nation's largest electric utilities and a subsidiary of Edison International, where she led all aspects of finance including strategy, planning, treasury, accounting, risk management and control functions, as well as operational services including supply chain functions, transportation services and facilities management. Prior to becoming CFO, Ms. Sullivan was Vice President and Controller of both Edison International and Southern California Edison for

Name	Age	Office and Employment During Last Ten Years
		five years. She also held a variety of financial leadership roles at a number of Edison International’s competitive businesses, including retail subsidiaries providing home security, energy efficiency and operations and maintenance service; and a research and development start-up focused on distributed generation, smart grid technologies solar rooftop installations and electric vehicle charging stations. From 1991 to 1996, she performed finance and accounting functions at the corporate level and within an operating business unit at the utility. Before starting her career at Edison International, Ms. Sullivan was senior auditor with Arthur Andersen, LLP for three years. She is a Certified Public Accountant (inactive) and Certified Management Accountant.
Edward Vallejo	55	Mr. Vallejo has been our Vice President of Financial Strategy, Planning and Decision Support since December 2014. Prior to his current role, he served as Vice President of Investor Relations. Prior to that he held various positions with increasing responsibility with us including chief financial officer of Thames Water Chile, Vice President of Mergers & Acquisitions and Treasurer. He began his career in the utilities sector in 1994 as an investment banker for PaineWebber.
William M. Varley	57	Mr. Varley has been Senior Vice President, Northeast Division and President of New Jersey American Water since January 2014. He is also President of New York American Water (formerly named Long Island American Water), a position he has held since 2007. Mr. Varley previously served as Vice President and Manager of Long Island American Water, as well as Vice President of Business Development for New Jersey and New York. Prior to joining American Water in 2000, Mr. Varley was the District Manager for Layne Christensen Co., a large water supply contracting company, for 13 years. There he oversaw Layne’s Long Island well-drilling operations. He also worked for large consulting engineering firms Camp Dresser & McKee and Hazen & Sawyer as resident and design engineer for large wastewater treatment plant upgrades. Mr. Varley holds a bachelors of science in civil engineering technology from Rochester Institute of Technology.
Loyd “Aldie” Warnock	55	Mr. Warnock has been our Senior Vice President of External Affairs, Communications and Public Policy since April 28, 2014. Prior to joining American Water, he was the Senior Vice President of External Affairs at Midwest Independent System Operator Inc., a nonprofit, self-governing organization, where he directed policy development for regulatory and legislative matters, oversaw state and federal regulatory and legislative activities, client relations, stakeholder support and corporate communications for this regional transmission organization. Other previous experience includes serving as Vice President of External Affairs for Allegheny Energy, Senior Vice President of Governmental and Regulatory Affairs at Mirant Corporation and Vice President of Regulatory Affairs at Reliant Energy. Mr. Warnock currently serves on the Board of Directors for the National Association of Water Companies and on its Executive Committee.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the captions entitled "Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Director Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item setting forth the security ownership of certain beneficial owners and management is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the caption entitled "Security Ownership of Principal Stockholders and Management" and the "Equity Compensation Plan" table appearing under the caption "Long-Term Equity Incentive Compensation."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the captions entitled "Certain Relationships and Related Transactions" and "Director Independence."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the caption entitled "Independent Registered Public Accounting Fees and Services."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted since they are either not required or are not applicable as the information is otherwise included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 24th day of February, 2015.

AMERICAN WATER WORKS COMPANY, INC.

BY: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed on the 24th day of February, 2015 by the following persons in the capacities indicated.

/s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer and Director)

/s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

/s/ MARK CHESLA
Mark Chesla
Vice President, Controller

/s/ GEORGE MACKENZIE
George MacKenzie
(Director)

/s/ MARTHA CLARK GOSS
Martha Clark Goss
(Director)

/s/ JULIE A. DOBSON
Julie A. Dobson
(Director)

/s/ RICHARD R. GRIGG
Richard R. Grigg
(Director)

/s/ JULIA L. JOHNSON
Julia L. Johnson
(Director)

/s/ WILLIAM J. MARRAZZO
William J. Marrazzo
(Director)

/s/ PAUL J. EVANSON
Paul J. Evanson
(Director)

/s/ KARL F. KURZ
Karl F. Kurz
(Director)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-3028, filed November 6, 2008.)
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed January 5, 2010).
4.1	Indenture, dated as of October 22, 2007 between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to American Water Capital Corp.'s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc.'s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).
4.2	Indenture, dated as of November 26, 2008, between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 3, 2008).
4.3	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 3, 2010).
4.4	Officers' Certificate, dated December 15, 2010, establishing the 6.00% Senior Monthly Notes due 2040 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 15, 2010).
4.5	Officers' Certificate, dated December 17, 2012, establishing the 4.300% Senior Notes due 2042 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 17, 2012).
4.6	Officers' Certificate, dated November 20, 2013, establishing the 3.850% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed November 20, 2013).
4.7	Officers' Certificate, dated August 14, 2014, establishing the 3.400% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed August 14, 2014).
4.8	Officers' Certificate, dated August 14, 2014, providing for a further issuance of the 4.300% Senior Notes 2042 ((incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed August 14, 2014).
4.9	Note Purchase Agreement, as amended, dated December 21, 2006, between American Water Capital Corp. and the purchasers party thereto (incorporated by reference to Exhibit 4.2 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007) with respect to the 5.52% Series B Senior Notes due December 21, 2016, 5.62% Series C Senior Notes due December 21, 2018 and 5.77% Series D Senior Notes due December 21, 2021.
4.10	Note Purchase Agreement, as amended, dated March 29, 2007, between American Water Capital Corp. and the purchasers party thereto (incorporated by reference to Exhibit 4.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007) with respect to 5.62% Series E Senior Notes due March 29, 2019 and 5.77% Series F Senior Notes due March 29, 2022.

Exhibit Number	Exhibit Description
4.11	Note Purchase Agreement, dated May 15, 2008, between American Water Capital Corp. and the purchasers party thereto (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed May 15, 2015, with respect to the 6.25% Series G Senior Notes due May 15, 2018 and the 6.55% Series H Senior Notes due May 15, 2023.
10.1	Credit Agreement, dated as of October 29, 2012, between American Water Capital Corp., each of the lenders party thereto, Wells Fargo Bank, National Association [written out for indenture & on credit agreement], as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent. (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed on May 7, 2013).
10.2	Amendment, dated as of September 6, 2013, to the Credit Agreement, dated as of October 29, 2012, between American Water Capital Corp., each of the lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent.
10.3	Lender Consent, dated as of September 9, 2013 to the Credit Agreement, dated as of October 29, 2012, as amended, between American Water Capital Corp., each of the lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent.
10.4	Support Agreement, dated June 22, 2000, together with First Amendment to Support Agreement, dated July 26, 2000, by and between American Water Works Company, Inc. and American Water Capital Corp. (incorporated by reference to Exhibit 10.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.5.1	Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 25, 2013 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.5.2	First Amendment to the Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 27, 2013 (incorporated by reference to Exhibit 10.2A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.6.1	Employment Agreement between Jeffry E. Sterba and American Water Works Company, Inc., dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed March 30, 2012).
10.6.2	Letter Agreement, dated December 12, 2013, between the Company and Jeffry E. Sterba, amending Mr. Sterba's Employment Letter Agreement dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 13, 2013).
10.7	Employment Agreement between Susan Story and American Water Works Company, Inc., dated February 20, 2013 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.8	Employment Agreement between Kellye L. Walker and American Water Works Company, Inc., dated December 21, 2009 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.9	Employment Letter Agreement between Linda G. Sullivan and American Water Works Company, Inc. dated March 10, 2014 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)

Exhibit Number	Exhibit Description
10.10	Amended and Restated American Water Works Company, Inc. Executive Retirement Plan, dated as of March 1, 2007 (incorporated by reference to Exhibit 10.8 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.11	Amended and Restated American Water Works Company, Inc. Deferred Compensation Plan, dated as of January 1, 2001 (incorporated by reference to Exhibit 10.9 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.12.1	American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.15 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.12.2	Amendment 2010-1 to the American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan, dated as of December 10, 2010 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-K, File No. 001-34028, filed February 28, 2011).
10.13	American Water Works Company, Inc. Executive Severance Policy, dated as of December 16, 2008 (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed November 3, 2010).
10.14.1	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (incorporated by reference to Exhibit 10.22 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.14.2	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Nonqualified Stock Option Grant for ML1 – L5 Employees (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.14.3	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form A for ML1 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.14.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form B for ML1 – L5 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.14.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Nonqualified Stock Option Grant for ML1 – L5 Employees (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14.6	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form A for ML1 – L5 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14.7	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form B for ML1 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14.8	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Initial Restricted Stock Unit Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).

Exhibit Number	Exhibit Description
10.14.9	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.10	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.11	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.3A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.12	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.13	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Restricted Stock Unit Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.14	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for Jeffry E. Sterba (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.15	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for Jeffry E. Sterba (incorporated by reference to Exhibit 10.8 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.16	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.17	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5 (incorporated by reference to Exhibit 10.4A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.18	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.19	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.5A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.20	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for Jeffry E. Sterba (incorporated by reference to Exhibit 10.9 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)

Exhibit Number	Exhibit Description
10.14.21	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for Jeffry E. Sterba (incorporated by reference to Exhibit 10.10 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.22	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Performance Stock Unit Grant Form A for Susan N. Story (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.23	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Performance Stock Unit Grant Form B for Susan N. Story (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.24	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.9 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.25	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.26	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.6A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.27	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.8 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.28	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Nonqualified Stock Option Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.29	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.10 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.30	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for ML2 – L5 (incorporated by reference to Exhibit 10.11 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.31	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.32	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.13 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).

Exhibit Number	Exhibit Description
10.14.33	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 3, 2011).
10.14.34	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 2, 2012).
10.14.35	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Stock Unit Grant Form for Non-Employee Directors (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed August 7, 2013).
10.14.36	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Stock Unit Grant Form for Non-Employee Directors (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed August 6, 2014).
10.15	2011 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.16	2012 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.17	2013 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.18	2014 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
*10.19	2015 American Water Annual Incentive Plan
10.20	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries, as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.37 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
10.21	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.38 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
*21.1	Subsidiaries of American Water Works Company, Inc.
*23.1	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.

Exhibit Number	Exhibit Description
*32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*101	The following financial statements from American Water Works Company, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith

Instruments defining the rights of holders of certain issues of long-term debt of the Company and certain of its consolidated subsidiaries have not been filed as exhibits to this report because the authorized principal amount of any one of such issues does not exceed 10% of the consolidated total assets of the Company's consolidated total assets. The Company agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

Instruments defining the rights of holders of certain issues of long-term debt of the Company and certain of its consolidated subsidiaries have not been filed as exhibits to this report because the authorized principal amount of any one of such issues does not exceed 10% of the consolidated total assets of the Company's consolidated total assets. The Company agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-168543 and 333-150381) and Form S-3 (Nos. 333-187120 and 333-181155) of American Water Works Company, Inc. of our report dated February 24, 2015 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2015

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Susan N. Story, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2015

By: /s/ SUSAN N. STORY

Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Linda G. Sullivan, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2015

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND
18 U.S.C. SECTION 1350,

I, Susan N. Story, President and Chief Executive Officer of American Water Works Company, Inc. (the "Company"), hereby certify that, based on my knowledge:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

February 24, 2015

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND 18 U.S.C. SECTION 1350,

I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer, of American Water Works Company, Inc. (the "Company"), hereby certify that, based on my knowledge:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

February 24, 2015

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CORPORATE INFORMATION

BOARD OF DIRECTORS

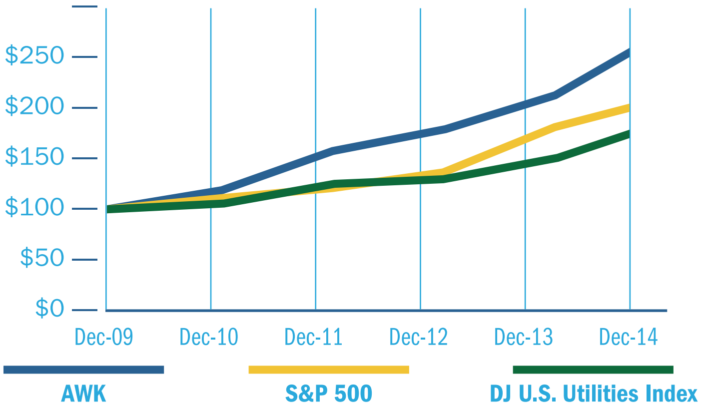
American Stock Transfer
& Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Phone: 1-800-937-5449

STOCK LISTING

AWK
LISTED
NYSE

STOCK PERFORMANCE GRAPH

	$0.28
June 2, 2014	$0.31
September 2, 2014	$0.31
December 1, 2014	$0.31



	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
American Water						

AMERICAN WATER

2014 Annual Report

AMERICAN WATER

www.amwater.com

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AMERICAN WATER

2013 ANNUAL REPORT

PROGRESS

Dear Fellow Stockholder,

2013 saw American Water advance its strategic growth initiatives, improve its operational efficiency through continuous improvement and process excellence, and, in spite of a cooler and wetter than normal summer in much of the Midwest and Northeast, turn in another year of strong financial performance. Looking at our adjusted 2013 results, we generated a slightly more than 13% increase in diluted earnings per share compared to adjusted 2012 results (both non-GAAP financial measures).

We added more customers to our regulated operations through acquisitions than in the five prior years combined. Most of these customer additions were on the wastewater side, which is a strategic point of focus for growth for the Company. Our Military Services Group received the first military base award made in the past three years, Hill Air Force Base in Utah, bringing our long-term base contracts to 10 with a backlog of roughly $2.3 billion. We expect to see one or more additional award decisions made by the military later this year and believe there to be an available pipeline of 20 or more bases over the next four to five years. We implemented the exclusive New York City award for Homeowner Services and now serve one out of every seven homes in the five boroughs, with over 90 percent of those homes contracting for both water and sewer line protection.

The commitment to continuous improvement and process excellence is becoming ingrained into the fabric of our culture with more than 400 employees applying new skills in more than 180 specific projects completed with savings of over $10 million, not including over $12 million of savings coming through supply chain initiatives. In fact, our plan will generate operating cost savings of over $900 million from 2014 to 2018, as compared to continuing business as usual. We know that as we drive efficiency into our operations, we can enable more of the needed investment in the aging water infrastructure without putting undue burden on the water bills of our customers.

In 2013, we invested approximately $950 million to improve and expand our infrastructure. We are now replacing underground infrastructure on a slightly less than 150-year life cycle, compared to the industry average of between 250 and 300 years.

In January 2014, our fundamental commitment to safety and health was tested by a large chemical spill in West Virginia from a tank belonging to the now-bankrupt Freedom Industries. We are extremely proud of how our people responded in a difficult situation. Throughout the period, while a federal and state emergency declaration was in effect, we provided the approximately 95,000 customers with water for basic sanitation and fire protection while dealing with the contamination issue. Because of many line breaks due to extremely cold weather caused by the polar vortex phenomenon and customers letting their water drip to prevent freezing of their pipes, the system storage was low and losing water despite the plant running at near maximum capacity. This meant that shutting down the plant was not a viable option as it would have quickly resulted in loss of the entire system, meaning no fire protection or water for basic sanitation for approximately 300,000 people. Based on consultation with the state of West Virginia, a "Do Not Use" order for drinking, cooking or washing was issued to protect public health. This avoided loss of the system and its restart, a process that would have taken significantly more time for this very complex system.

Working closely with federal and state health agencies and regulators in a massive sampling and testing program, we were able to lift the "Do Not Use" order in stages over a five-day period beginning on Jan. 13. During this situation, we provided bottled water and bulk drinking water, distributed to customers by the National Guard.

As a result of this incident, public discourse on the situation has begun and should continue. Informed discussion on possible legislation and/or regulation to help keep such events from happening is essential. American Water has been and will continue to be fully engaged in these conversations because nothing matters more to us than providing safe, reliable water service to our communities and customers.

This situation points out the value of the strong and broad American Water system that can bring to bear the technical and other resources to meet whatever needs may arise. From our robust research capability to our state-of-the-art laboratory facilities to our well-trained plant and field personnel, our customers benefit from being served by American Water. In emergency situations, whether the Joplin tornado, Superstorm Sandy, or Freedom Industries' avoidable chemical spill in West Virginia, American Water stands ready to help our customers through such difficult events.

Finally, as you are likely aware, I will retire as CEO this May. I have thoroughly enjoyed working with the excellent employees at our Company and am proud of the great progress that has been made in creating value for our customers, employees and shareholders. This Company will be well-served in the incredibly talented hands of Susan Story and the many great leaders we have at American Water. This highly capable team will deliver many successes in the future.

On behalf of the Company, we want to thank you for your ongoing support. Through a continued focus on our customers, delivering our goals and creating a culture of continuous improvement and process excellence, we are confident in our ability to achieve 7 to 10 percent long-term growth. We are excited about the future and hope you are too.

Sincerely,

G. MacKenzie

George MacKenzie
Chairman of the Board

Jeff Sterba
President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from __________ to __________

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**51-0063696**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 "small reporting company" in Rule 12(b)-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 Act). Yes ☐ No ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, $0.01 par value—$7,336,584,365 as of June 30, 2013.

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

Common Stock, $0.01 par value per share—178,722,663 shares, as of February 20, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Company's Proxy Statement for the Company's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in other sections of this Annual Report on Form 10-K ("Form 10-K"), or incorporated certain statements by reference into this Form 10-K, that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 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," "forecast," "outlook," "future," "potential," "continue," "may," "can," "should" and "could" and similar expressions. Forward-looking statements may relate to, among other things, our future financial performance, including our operations and maintenance ("O&M") efficiency ratio, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our ability 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 of any outcomes, financial results or levels of performance and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and un certainties, and new risks and uncertainties of which we are not currently aware or which we do not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of our expectations or assumptions prove incorrect, then our results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under the caption "Risk Factors" and the following factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness of regulatory commissions' actions concerning rates;
- 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 water quality and public utility regulations and policies;
- weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal and intercoastal flooding;
- the outcome of litigation and government action related to recent events in West Virginia;
- our ability to appropriately maintain current infrastructure 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;
- 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 acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of our operations;
- changes in general economic, business and financial market conditions;

- access to sufficient capital on satisfactory terms;
- 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;
- our ability to utilize our U.S. and state net operating loss carryforwards;
- migration of customers into or out of our service territories;
- difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;
- the incurrence of impairment charges;
- labor actions, including work stoppages;
- our ability to affect significant changes to our business processes and corresponding technology;
- ability to retain and attract qualified employees; and
- civil disturbance, or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make, speak only as of the date of this Form 10-K. Except as required by law, 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.

PART I

ITEM 1. BUSINESS

Our Company

American Water Works Company, Inc., (the "Company"), a Delaware corporation, is the most geographically diversified, as well as the largest publicly-traded, United States water and wastewater utility company, as measured by both operating revenue and population served. As a holding company, we conduct substantially all of our business operations through our subsidiaries. Our approximately 6,600 employees provide an estimated 14 million people with drinking water, wastewater and other water-related services in over 40 states and two Canadian provinces.

In 2013, our on-going operations generated $2,901.9 million in total operating revenue and $369.3 million in income from continuing operations. Included in the 2013 income from continuing operations was an after-tax charge of $24.8 million related to a loss on extinguishment of debt to effect a tender offer that we announced in September 2013. In 2012, our on-going operations generated $2,876.9 million in total operating revenue and $374.3 million in income from continuing operations.

We have two operating segments that are also the Company's two reportable segments: the Regulated Businesses and the Market-Based Operations. For further details on our segments, see Note 19 of the Consolidated Financial Statements.

For 2013, our Regulated Businesses segment generated $2,593.9 million in operating revenue, which accounted for 89.4% of our total consolidated operating revenue. For the same period, our Market-Based Operations segment generated $325.5 million in operating revenue, which accounted for 11.2% of total consolidated operating revenue.

During 2011, we either consummated or announced the sale of assets or stock of certain of our regulated and market-based subsidiaries as outlined in "Our Regulated Businesses" and "Our Market-Based Operations" discussions below. As such, these subsidiaries have been presented as discontinued operations for all periods presented, and are not included in the discussions below unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

For additional financial information, please see the financial statements and related notes thereto appearing elsewhere in this Form 10-K.

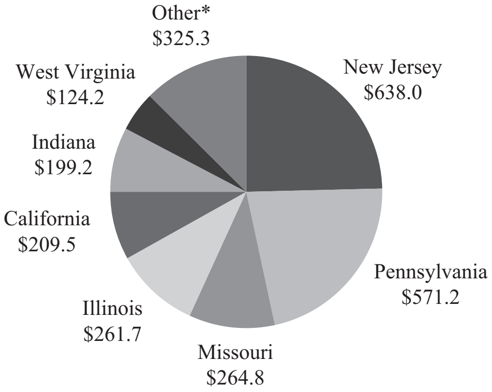
Regulated Businesses Overview

Our primary business involves the ownership of subsidiaries that provide water and wastewater utility services to residential, commercial, industrial and other customers, including sale for resale and public authority customers. We report the results of this business in our Regulated Businesses segment. Our subsidiaries that provide these services are generally subject to economic regulation by certain state commissions or other entities engaged in economic regulation, hereafter referred to as "PUCs," in the states in which they operate. The federal government and the states also regulate environmental, health and safety, and water quality matters.

As noted above, for 2013, operating revenue for our Regulated Businesses segment was $2,593.9 million, accounting for 89.4% of total consolidated operating revenue for the same period. Regulated Businesses segment operating revenues were $2,564.4 million for 2012 and $2,368.9 million for 2011, accounting for 89.1% and 88.8%, respectively, of total operating revenues for the same periods.

The following charts set forth operating revenue for 2013 and customers as of December 31, 2013, for the states in which our Regulated Businesses provide services:

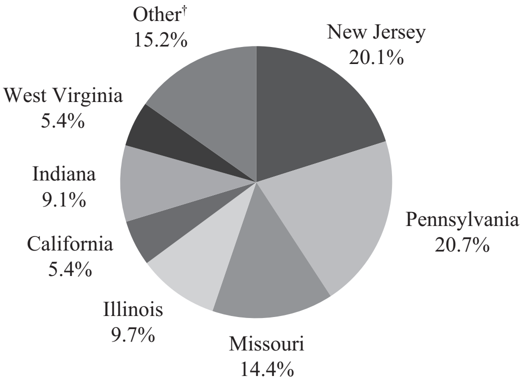
Regulated Businesses Operating Revenue (dollars in Millions)



Total – $2,593.9

* Includes the combined results of our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia

Regulated Businesses Customers



Total – 3,219,499

† Includes the combined results of our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia

Market-Based Operations Overview

We also provide services that are not subject to economic regulation by state PUCs through our Market-Based Operations. Our Market-Based Operations include three lines of business:

- Contract Operations Group, which enters into contracts to operate and maintain water and wastewater facilities mainly for the United States military, municipalities, and the food and beverage industry;
- Homeowner Services Group, which provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes and clogged or blocked sewer pipes inside and outside their accommodations; and
- Terratec Environmental Ltd., which we refer to as Terratec, which primarily provides biosolids management, transport and disposal services to municipal and industrial customers.

For 2013, operating revenue for our Market-Based Operations was $3 25.5 million, accounting for 11.2% of total operating revenue for the same period. The Market-Based Operations' operating revenue was $330.3 million for 2012 and $327.8 million for 2011, accounting for 11.5% and 12.3%, respectively, of total operating revenues for the same periods.

Our Industry

Overview

The United States water and wastewater industry has two main sectors (i) utility ownership, which involves supplying water and wastewater services to consumers; and (ii) general services, which involves providing water and wastewater related services to water and wastewater utilities and other customers on a contract basis.

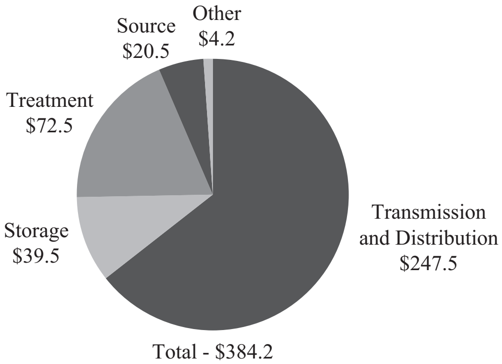
The utility sector includes investor-owned as well as municipal systems that are owned and operated by local governments or governmental subdivisions. The Environmental Protection Agency ("EPA") estimates that government-owned systems account for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems. Investor-owned water and wastewater systems, including a small number of private companies and developers, account for the remainder of the United States water and wastewater community water systems. Growth of service providers in the investor-owned regulated utility sector is achieved through organic growth within a franchise area, the provision of bulk water service to other community water systems and/or acquisitions, including small water and wastewater systems, typically serving fewer than 10,000 customers that are in close geographic proximity to already established regulated operations, which we herein refer to as "tuck-ins."

The utility sector is characterized by high barriers to entry, given the capital intensive nature of the industry. The aging water and wastewater infrastructure in the United States is in constant need of modernization and replacement. Increased regulations to improve water quality and the management of water and wastewater residuals' discharges, which began with passage of the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, have been among the primary drivers of the need for modernization. The EPA estimated that the nation's drinking water utilities need $384.2 billion in infrastructure investments for thousands of miles of pipe as well as thousands of treatment plants storage tanks, and other key assets between 2011 and 2030 to ensure the public health, security and economic well-being of our cities, towns and communities. Also, in 2007 the EPA estimated that approximately $390 billion of capital spending would be necessary over the next 20 years to replace aging infrastructure and ensure quality wastewater systems across the United States. In addition, the 2011 American Society of Civil Engineers' ("ASCE") report, *Failure to Act: The Economic Impact of Current Investment Trends in Water and Wastewater Treatment Infrastructure* estimated that as investment needs continue to escalate and current funding trends continue to fall short of the needs, it will likely result in unreliable water service and wastewater treatment. According to the report, this can result in water disruptions, impediments to emergency response, and damage to other types of infrastructure such as roads and bridges, as well as water shortages (from failing infrastructure and drought) that may result in unsanitary conditions and increase the likelihood of public health issues. In its most recent 2013 ASCE Report Card for America's Infrastructure it gave the water and wastewater infrastructure a grade of "D" due to the fact that much of the infrastructure is nearing the end of its useful life. The report concluded that there will be an investment gap between now and 2020 of $84 billion for drinking water and wastewater infrastructure.

Note: Numbers may not total due to rounding

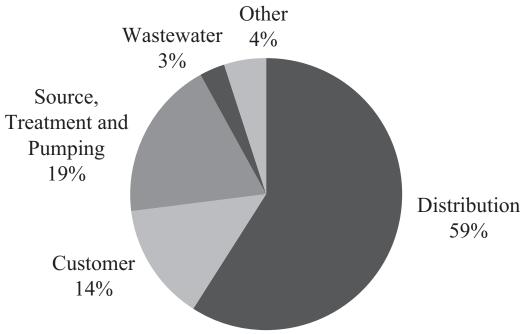
Source: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment

The following chart sets forth estimated capital expenditure needs from 2011 through 2030 for United States water systems:

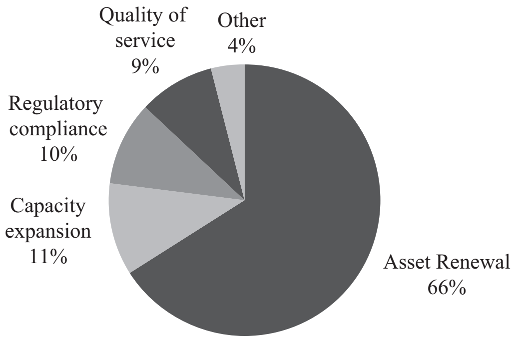


Total - $384.2
(dollars in billions)

For 2014 to 2018, we estimate that Company-funded capital investment will amount to approximately $5.8 billion. Of the $5.8 billion, $5.1 billion is anticipated to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period for acquisitions and for strategic capital of approximately $400 million and $300 million, respectively. Strategic investments could include opportunities in the unregulated shale arena or a major concession. Our total capital plan for 2014 is estimated to be $1.1 billion with approximately $900 million allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth. In addition to the $900 million in infrastructure upgrades, the capital investment plan for 2014 also includes $100 million for acquisitions and $100 million for strategic investment purposes. The charts below set forth our estimated percentage of projected capital expenditures over the period of 2014 to 2018 for upgrading our infrastructure and systems by asset type and purpose of investment, respectively:



% Projected Capital Expenditures by Asset Type



% Projected Capital Expenditures by Purpose

Investor-owned water and wastewater utilities generally require regulatory approval processes in order to do business, which may involve obtaining relevant operating approvals, including certificates of public convenience and necessity (or similar authorizations) from state PUCs. Investor-owned water and wastewater systems are generally subject to economic regulation by the state PUCs in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters for both investor-owned and government-owned water and wastewater utilities.

The general services sector includes engineering and consulting companies and numerous other fee-for-service businesses. These include building and operating water and wastewater utility systems, system repair services, lab services, sale of water infrastructure and distribution products (such as pipes) and other specialized services. The general services segment is characterized by aggressive competition and market-driven growth and profit margins.

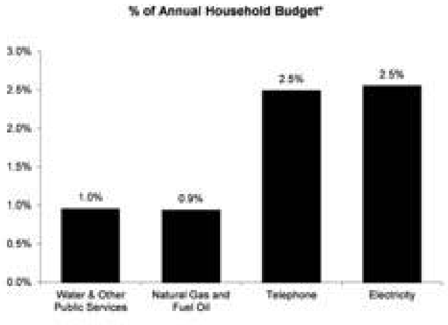
According to the EPA, the utility segment of the United States water and wastewater industry is highly fragmented, with approximately 54,000 community water systems and approximately 15,000 community wastewater facilities. Over half of the community water systems are very small, serving a population of 500 or less.

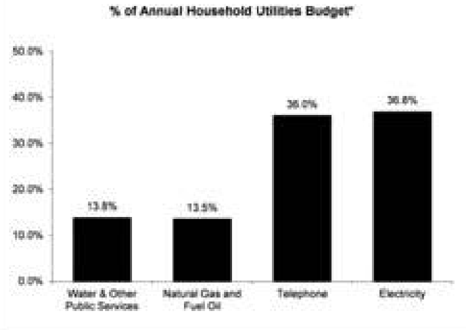
This large number of relatively small, fragmented water systems as well as fragmented wastewater facilities may result in inefficiencies in the marketplace, since such utilities may not have the operating expertise, financial and technological capability or economies of scale to provide services or raise capital as efficiently as larger utilities. Larger utilities that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to both water and wastewater systems. In addition, water and wastewater utilities with large customer bases, spread across broad geographic regions, may more easily absorb the impact of significant variations in precipitation and temperatures, such as droughts, excessive rain and cool temperatures in specific areas. Larger utilities generally are able to spread support services over a larger customer base, thereby reducing the costs to serve each customer. Since many administrative and support activities can be efficiently centralized to gain economies of scale, companies that participate in industry consolidation have the potential to improve operating efficiencies, lower costs per unit and improve service at the same time.

Water and Wastewater Rates

Investor-owned water and wastewater utilities generate operating revenue from customers based on rates that are generally established by state PUCs through a rate-setting process that may include public hearings, evidentiary hearings and the submission by the utility of evidence and testimony in support of the requested level of rates. In evaluating a rate case, state PUCs typically focus on six areas: (i) the amount and prudence of investment in facilities considered "used and useful" in providing public service; (ii) the operating and maintenance costs and taxes associated with providing the service (typically by making reference to a representative 12-month period of time, known as a test year); (iii) the appropriate rate of return; (iv) revenue produced by existing rates; (v) the tariff or rate design that allocates operating revenue requirements across the customer base; and (vi) the quality of service the utility provides, including issues raised by customers.

Water and wastewater rates in the United States are among the lowest for developed countries; and for most U.S. consumers, water and wastewater bills make up a relatively small percentage of household expenditures compared to other utility services. The following chart sets forth the relative cost of water and other public services, including trash and garbage collection and sewer maintenance, in the United States as a percentage of total household utility expenditures:





* Source: Bureau of Labor Statistics-Consumer Expenditures Survey, 2012 (assumes four person household)

Our Regulated Businesses

Our Regulated Businesses consist of locally managed utility subsidiaries that generally are subject to economic regulation by the states in which they operate. Our Regulated Businesses provide a high degree of financial stability because (i) high barriers to entry provide certain protections from competitive pressures; (ii) economic regulation promotes predictability in financial planning and long-term performance through the rate-setting process; and (iii) our large customer base.

During 2012, we continued to execute our plan for optimizing our Regulated Businesses' portfolio. In January 2012, we completed the sale of all of our stock in our water and wastewater operating companies located in Arizona and New Mexico. On May 1, 2012, we completed the sale of our eight regulated water systems and one wastewater system in Ohio. Ohio American Water served approximately 58,000 customers. Also, on May 1, 2012, we completed the purchase of seven regulated water systems in New York. This acquisition added approximately 50,000 customers to our New York regulated operations.

In May 2011, we completed the acquisition of 11 regulated water systems and 48 wastewater systems in Missouri and in June 2011, we completed the sale of the assets of our Texas regulated subsidiary. The Missouri acquisition added approximately 1,700 water customers and nearly 2,000 wastewater customers. The Tex as assets served approximately 4,200 water and 1,100 wastewater customers in the greater Houston metropolitan area.

As noted above, as a result of these sales, these regulated subsidiaries are presented as discontinued operations for all periods presented. Therefore, the amounts, statistics and tables presented in this section refer only to on-going operations, unless otherwise noted.

The following table sets forth our Regulated Businesses operating revenue for 2013 and number of customers from continuing operations as well as an estimate of population served as of December 31, 2013:

	Operating Revenues (In millions)	% of Total	Number of Customers	% of Total	Estimated Population Served (In millions)	% of Total
New Jersey	$ 638.0	24.6%	647,168	20.1%	2.5	21.7%
Pennsylvania	571.2	22.0%	666,947	20.7%	2.1	18.3%
Missouri	264.8	10.2%	464,232	14.4%	1.5	13.1%
Illinois (a)	261.7	10.1%	311,464	9.7%	1.2	10.4%
California	209.5	8.1%	173,986	5.4%	0.6	5.2%
Indiana	199.2	7.7%	293,345	9.1%	1.2	10.4%
West Virginia (b)	124.2	4.8%	173,208	5.4%	0.6	5.2%
Subtotal (Top Seven States)	2,268.6	87.5%	2,730,350	84.8%	9.7	84.3%
Other (c)	325.3	12.5%	489,149	15.2%	1.8	15.7%
Total Regulated Businesses	$2,593.9	100.0%	3,219,499	100.0%	11.5	100.0%

(a) Includes Illinois-American Water Company, which we refer to as ILAWC and American Lake Water Company, also a regulated subsidiary in Illinois.

(b) West Virginia-American Water Company, which we refer to as WVAWC, and its subsidiary Bluefield Valley Water Works Company.

(c) Includes data from our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee, and Virginia.

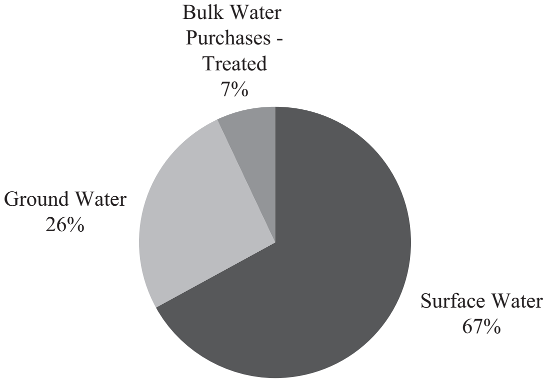
Approximately 87.5 % of operating revenue from our Regulated Businesses in 2013 was generated from approximately 2.7 million customers in our seven largest states, as measured by operating revenues. In fiscal year 2013, no single customer accounted for more than 10% of our annual operating revenue.

Overview of Networks, Facilities and Water Supply

Our Regulated Businesses operate in approximately 1,500 communities in 16 states in the United States. Our primary operating assets include 87 dams along with approximately 80 surface water treatment plants, 500 groundwater treatment plants, 1,000 groundwater wells, 100 wastewater treatment facilities, 1,200 treated water storage facilities, 1,300 pumping stations, and 47,000 miles of mains and collection pipes. Our regulated utilities own substantially all of the assets used by our Regulated Businesses. We generally own the land and physical assets used to store, extract and treat source water. Typically, we do not own the water itself, which is held in public trust and is allocated to us through contracts and allocation rights granted by federal and state agencies or through the ownership of water rights pursuant to local law. Maintaining the reliability of our networks is a key activity of our Regulated Businesses. We have ongoing infrastructure renewal programs in all states in which our Regulated Businesses operate. These programs consist of both rehabilitation of existing mains and replacement of mains that have reached the end of their useful service lives.

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, governmental restrictions, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. We employ a variety of measures to ensure that we have adequate sources of water supply, both in the short-term and over the long-term. The geographic diversity of our service areas tends to mitigate some of the economic effect of weather extremes we might encounter in any particular service territory. In any given summer, some areas are likely to experience drier than average weather while other areas we serve will experience wetter than average weather.

As noted, our Regulated Businesses are dependent upon a defined source of water supply and obtain their water supply from surface water sources such as reservoirs, lakes, rivers and streams. In addition, we also obtain water from ground water sources, such as wells, and purchase water from other water suppliers. The following chart sets forth the sources of water supply for our Regulated Businesses for 2013 by volume:



In our long-term planning, we evaluate quality, quantity, growth needs and alternate sources of water supply as well as transmission and distribution capacity. Sources of supply are seasonal in nature and weather conditions can have a pronounced effect on supply. In order to ensure that we have adequate sources of water supply, we use planning processes and maintain contingency plans to minimize the potential impact on service through a wide range of weather fluctuations. In connection with supply planning for most surface or groundwater sources, we employ models to determine safe yields under different rainfall and drought conditions.

Surface and groundwater levels are routinely monitored so that supply capacity deficits may, to the extent possible, be predicted and mitigated through demand management and additional supply development.

The percentage of finished water supply by source type for our top seven states by Regulated Businesses revenues for 2013 is as follows:

	Ground water	**Surface water**	**Purchased Water**
New Jersey	21%	73%	6%
Pennsylvania	7%	92%	1%
Missouri (a)	17%	82%	1%
Illinois	35%	54%	11%
California (b)	67%	—	33%
Indiana	55%	44%	1%
West Virginia	—	99%	1%

(a) There are limitations in our Joplin service area where the projected source of water supply capacity is unable to meet projected peak demands under certain drought conditions. To manage this issue on the demand side, the water use of a large industrial customer can be restricted under an interruptible tariff. Additional wells have been and will be developed to address short-term supply deficiencies. Missouri-American Water Company is working with a consortium of agencies to determine a long-term supply solution for the Joplin, Missouri region.

(b) In Monterey, in order to augment our sources of water supply, we have implemented conservation rates and other programs to address demand and are utilizing aquifer storage and recovery facilities to store winter water for summer use. Additionally, in other areas, we are making arrangements to extend or expand our purchase of water from neighboring water providers.

The level of treatment we apply to the water varies significantly depending upon the quality of the water source and customer stipulations. Surface water sources, such as rivers, typically require significant treatment, while some groundwater sources, such as aquifers, require chemical treatment only. In addition, a small amount of treated water is purchased from neighboring water purveyors. Treated water is transported through our transmission and distribution network, which includes underground pipes, above ground storage facilities and numerous pumping facilities with the ultimate distribution of the treated water to the customers' premises.

We also have installed production meters to measure the water that we deliver to our distribution network. We employ a variety of methods of customer meter reading to monitor consumption; ranging from meters with mechanical registers where consumption is manually recorded by meter readers to meters with electronic registers capable of transmitting consumption data to proximity devices (touch read) or via radio frequency to mobile or fixed network data collectors. The majority of new meters are able to support future advances in electronic meter reading.

Wastewater services involve the collection of wastewater from customers' premises through sewer lines. The wastewater is then transported through a sewer network to a treatment facility, where it is treated to meet required effluent standards. The treated wastewater is finally returned to the environment as effluent, and the solid waste by -product of the treatment process is disposed of in accordance with applicable standards and regulations.

Customers

We have a large and geographically diverse customer base in our Regulated Businesses. An active customer is defined as a party with an active agreement to receive a specific service from a connection to our water or wastewater system as of the last business day of each monthly reporting period. Also, as in the case of apartment complexes, businesses and many homes, multiple individuals may be served by a single contract.

Residential customers make up the majority of our customer base in all of the states in which we operate. In 2013, residential customers accounted for 91. 0% of the customers and 59.3% of the operating revenue of our Regulated Businesses. We also serve commercial customers, such as shops and businesses; industrial customers, such as large-scale manufacturing and production operations; and public authorities, such as government buildings and other public sector facilities, including schools. We also supply water to public fire hydrants for firefighting purposes, to private fire customers for use in fire suppression systems in office buildings and other facilities as well as providing bulk water supplies to other water utilities for distribution to their own customers.

The following table sets forth the number of water and wastewater customers (by customer class) for our Regulated Businesses as of December 31, 2013, 2012, and 2011:

	December 31,					
	2013		2012		2011	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Residential	2,813,601	117,584	2,783,354	95,576	2,730,524	95,092
Commercial	219,510	6,287	218,988	5,477	216,415	5,462
Industrial	3,822	16	3,894	12	3,885	13
Public & other	58,420	259	50,702	223	49,705	209
Total	3,095,353	124,146	3,056,938	101,288	3,000,529	100,776

The following table sets forth water services operating revenues by customer class and wastewater services operating revenues, excluding other revenues, for our Regulated Businesses for 2013, 2012, and 2011:

	For the years ended December 31,					
	2013		2012		2011	
	(In millions)					
Water service						
Residential	$1,473.1	57.8%	$1,468.6	58.2%	$1,339.4	58.1%
Commercial	529.8	20.8%	518.3	20.6%	474.2	20.5%
Industrial	123.3	4.8%	139.1	5.5%	114.5	5.0%
Public and other	338.8	13.3%	317.7	12.6%	302.3	13.1%
Total water services	$2,465.0	96.7%	$2,443.7	96.9%	$2,230.4	96.7%
Wastewater services	82.8	3.3%	78.2	3.1%	76.3	3.3%
Total	$2,547.8	100.0%	$2,521.9	100.0%	$2,306.7	100.0%

The following table sets forth billed sales volumes by customer class for our Regulated Businesses for 2013, 2012 and 2011:

	For the years ended December 31,					
	2013		2012		2011	
	(gallons in millions)					
Billed water sales volumes						
Residential	180,976	51.8%	188,927	51.5%	180,916	51.2%
Commercial	80,392	23.0%	84,226	23.0%	81,455	23.0%
Industrial	37,107	10.6%	39,429	10.7%	39,295	11.1%
Public and other	51,009	14.6%	54,202	14.8%	52,069	14.7%
Total	349,484	100.0%	366,784	100.0%	353,735	100.0%

The vast majority of our regulated water customers are metered, which allows us to measure and bill for our customers' water consumption, typically on a monthly basis. Our wastewater customers are billed either on a fixed charge basis or based on their water consumption.

Customer usage of water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for lawn irrigation and other outdoor uses. Summer weather that is cooler and wetter than average generally serves to suppress customer water demand and can reduce water operating revenues and operating income. Summer weather that is hotter and drier than average generally increases operating revenues and operating income. However, when weather conditions are extremely dry, and even if our water supplies are sufficient to serve our customers, our systems may be affected by drought-related warnings and/or water usage restrictions imposed by governmental agencies, thereby reducing customer usage and operating revenues. These restrictions may be imposed at a regional or state level and may affect our service areas, regardless of our readiness to meet unrestricted customer demands. Other factors affecting our customers' usage of water include conservation initiatives, such as the use of more efficient household fixtures and appliances among residential consumers; declining household sizes in the United States; and changes in the economy and credit markets which could have significant impacts on our industrial and commercial customers' operational and financial performance.

Customer growth in our Regulated Businesses is driven by (i) organic population growth in our authorized service areas; (ii) adding new customers to our regulated customer base by acquiring water and/or wastewater utility systems; and (iii) the sale of water to other community water systems. Generally, we add customers through tuck-ins of small water and/or wastewater systems, typically serving fewer than 10,000 customers, in close geographic proximity to areas where we operate our Regulated Businesses. We will continue to acquire water and wastewater utilities through tuck-ins. The proximity of tuck-in opportunities to our regulated footprint allows us to integrate and manage the acquired systems and operations using our existing management and to achieve efficiencies. Historically, pursuing tuck-ins has been a fundamental part of our growth strategy. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and, if appropriate, certain markets in the United States where we do not operate our Regulated Businesses. We will also selectively seek larger acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing and new markets. Before entering new regulated markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate rate of return on our investment while maintaining our high standards for quality, reliability and compliance with environmental, health and safety and water quality standards.

Supplies

Our water and wastewater operations require an uninterrupted supply of chemicals, energy and fuel, as well as maintenance material and other critical inputs. Many of these inputs are subject to short-term price volatility. Short-term price volatility is partially mitigated through existing procurement contracts, current supplier continuity plans, the regulatory rate setting process and rate mechanisms.

Because of our geographic diversity, we maintain relationships with many chemical, equipment and service suppliers in the marketplace, and we do not rely on any single entity for a significant amount of our supplies. We also employ a strategic sourcing process intended to ensure reliability in supply and long-term cost effectiveness. As a result of this process and our strong relationships with suppliers, we are able to mitigate interruptions in the delivery of the products and services that are critical to our operations.

We typically have a combination of standby power generation or dual electric service feeds at key facilities, multiple water production facilities, emergency interconnections with adjacent water systems and finished water storage that keep our operations running in the event of a temporary loss of our primary energy supplies.

Regulation

Economic Regulation

Our Regulated Businesses are generally subject to extensive economic regulation by their respective PUCs. The term “economic regulation” is intended to indicate that these state PUCs regulate the economic aspects of service to the public but do not generally establish water quality standards, which are typically set by the EPA and/or state environmental authorities. State PUCs have broad authority to regulate many of the economic and service aspects of the utilities. For example, state PUCs often issue certificates of public convenience and necessity (or similar authorizations) that may be required for a company to provide service in specific areas. They also approve the rates and conditions under which service is provided and have extensive authority to establish rules and regulations under which the utilities operate. Specific authority might differ from state to state, but in most states PUCs approve rates, accounting treatments, long-term financing programs, significant capital expenditures and plant additions, transactions and relationships between the regulated subsidiary and affiliated entities, reorganizations, mergers and acquisitions. In many instances, approvals are required prior to the transaction. Regulatory policies not only vary from state to state, but can change over time as well. These policies will affect the timing as well as the extent of recovery of expenses and the realized return on invested capital. Our results of operations are significantly affected by rates authorized by the PUCs in the states in which we operate, and we are subject to risks and uncertainties associated with rate case delays or inadequate rate recovery.

Economic regulation of utilities involves many competing, and occasionally conflicting, public interests and policy goals. The primary responsibility of PUCs is to promote the overall public interest by balancing the interests of customers and the utility. Although the specific approach to economic regulation varies, certain general principles are consistent across the states in which our regulated subsidiaries operate. For example, based on certain legal and regulatory principles, utilities are entitled to recover, through rates charged to customers, prudent and reasonable operating costs as well as an opportunity to earn an appropriate return on and recovery of prudent, used and useful capital investment necessary to provide service to customers. PUCs will also generally accord a utility the right to serve specific areas and will also provide investor-owned utilities with limited protection from competition because the requirement of an investor-owned utility to operate pursuant to a certificate of public convenience and necessity (or similar authorizations) typically prevents other investor-owned utilities from competing with it in the authorized area. In return, the utility undertakes the obligation to provide reliable service without unreasonable discrimination to all customers within the authorized area.

Our operating revenue is typically determined by reference to a volumetric charge based on consumption and a base fee component set by a tariff approved by the PUC. The process to obtain approval for a change in rates generally involves filing a petition or “rate case” by the utility with the PUC on a periodic basis as determined by the need to recover capital expenditures, a reduction in operating revenues due to reduced consumption, increased operating costs or the utility determines that its current authorized return is not sufficient, given current market conditions, to provide a reasonable return on investment. A PUC may also initiate a rate proceeding or investigation if it believes a utility may be earning in excess of its authorized rate of return or other issues exist, which justify a review. PUCs may also impose other conditions on the content and timing of filings designed to affect rates. Rate cases often involve a lengthy administrative process that can be costly. The utility, the state PUC staff, consumer advocates, and other customers and interveners, who may participate in the process, generally submit testimony and supporting financial data from a twelve month period of time, known as the “test year.” State statutes and PUC rules and precedent usually determine whether the test year should be based on a historical period, a historical period adjusted for certain “known and measurable” changes or forecasted data. The majority of our states use a forecasted test year. The evidence is presented in public hearings held in connection with the rate case, which are economic and service quality fact-finding in nature, and are typically conducted in a trial-like setting before the PUC or an administrative law judge. During the process, the utility is required to provide PUC staff and interveners with all relevant information they may request concerning the utility’s operations, costs and investments. The decision of the PUC should be based on the evidence presented at the hearing.

State PUCs differ with regard to the types of expenses and investments that may be recovered in rates as well as with regard to the transparency of their rate-making processes and how they reach their final rate determinations. However, in evaluating a rate case, state PUCs typically focus on a number of areas, including, the amount and prudence of investment in facilities; operating and maintenance expenses and taxes; the appropriate cost of capital and equity return; revenues or consumption at current and expected levels; allocation of the revenue requirements among customer classes; service quality and issues raised by customers.

Failure of the PUCs to recognize reasonable and prudent operating and capital costs can result in the inability of the utility to earn the allowed return and can have a significant impact on the operations and earnings of our Regulated Businesses. Rate cases and other rate-related proceedings can take several months to over a year to complete. Therefore, there is frequently a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating cost increase and when those costs are reflected in rates. For instance, an unexpected increase in chemical costs or new capital investment that is not reflected in the most recently completed rate case will generally not begin to be recovered by the regulated subsidiary until the effective date of the subsequent rate case. Our rate case management program is guided by the goals of obtaining efficient recovery of costs of capital, recognition of declining consumption and appropriate recovery of utility operating and maintenance costs, including costs incurred for compliance with environmental regulations. The management team at each of our regulated subsidiaries anticipates the time required for the regulatory process and files rate cases with the goal of obtaining rates that reflect as closely as possible the cost of providing service at the time the rates become effective. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on and of invested capital that are permitted by the PUC.

Our regulated subsidiaries work with legislatures and PUCs to mitigate the adverse impact of regulatory lag through the adoption of positive regulatory policies. These policies include, for example, infrastructure replacement surcharges that allow rates to change outside the context of a general rate proceeding to reflect, on a more timely basis, investments to replace infrastructure necessary to sustain high quality, reliable service. Currently, Pennsylvania, Illinois, Missouri, Indiana, New York, New Jersey and Tennessee allow the use of infrastructure surcharges.

Forward-looking test year mechanisms allow us to earn, on a more current basis, our current or projected usage and costs and a rate of return on our current or projected invested capital. Some states have permitted use of a fully forecasted test year instead of historical data to set rates. Examples of these states include: Illinois, Kentucky, New York, Tennessee, California , Pennsylvania and Indiana. In all states in which we operate on a regulated basis, PUCs have allowed utilities to update historical data for certain "known and measurable" changes that occur for some limited period of time subsequent to the historical test year. This allows utilities to take into account more current costs or capital investments in the rate-setting process. The extent to which historical data can be updated will generally vary from state to state.

Surcharge mechanisms are also available in a number of states to reflect, outside of a general rate proceeding, changes in major operating expenses which may be beyond the utility's control. For example, New Jersey, California, Virginia and Illinois have allowed surcharges for purchased water costs. California has allowed surcharges for power and certain other costs, and New York has allowed annual reconciliations for revenues and expenses such as power, fuel, chemicals and property taxes.

Certain states have approved consolidated rates or single-tariff pricing policies. Consolidated rates or single-tariff pricing is the use of a unified rate structure for multiple water systems that are owned and operated by a single utility, but may or may not be contiguous or physically interconnected. The single-tariff pricing structure may be used fully or partially in a state, based on costs that are determined on a state-wide or intra-state regional basis, thereby moderating the impact of periodic fluctuations in local costs while lowering administrative costs for us and our customers. For states that do not employ single-tariffs, we may have multiple general rate cases filed at any given point in time. Examples of states that have adopted a full or partial single-tariff pricing policy include:

Pennsylvania, New Jersey, Missouri, West Virginia, Kentucky, Indiana, Illinois and Iowa. Therefore, of our seven largest states, six have some form of single-tariff pricing. Pennsylvania also permits a blending of water and wastewater rate structures, which results in single tariff pricing among water and wastewater systems.

Another mechanism to address issues of regulatory lag is the potential ability, in certain circumstances, to recover in rates a return on utility plant before it is in service, instead of capitalizing an allowance for funds used during construction. Examples of states that have allowed such recovery include Pennsylvania, Kentucky, Virginia, Illinois and California. In addition, some states, such as Indiana, al low the utility to seek pre-approval of certain capital projects and associated costs. In this pre-approval process, the PUC assesses the prudency of such projects.

In some states, the PUC has implemented mechanisms to enhance utility revenue stability in light of conservation initiatives, decreasing per capita consumption or other factors. Sometimes referred to as "decoupling," these mechanisms, to some extent, separate recoverable revenues from volumes of water sold. For example, the state of California has decoupled revenues from water sold to help achieve the state initiative to reduce water usage by 20% by 2020. This progressive regulation enables utilities to encourage water efficiency, as revenues are not tied to sales. Similarly, New York has implemented a surcharge or credit based on the difference between actual net revenues and the revenues allowed in the most recent rate order.

The Company pursues these positive regulatory policies as part of our rate and revenue management program to enhance our ability to provide high quality, sustainable, cost effective service to customers, to facilitate efficient recovery of our costs and investments, and to ensure positive short-term liquidity and long-term profitability. The ability of the Company to seek regulatory treatment as described above does not guarantee that the state PUCs will accept the Company's proposal in the context of a particular rate case, and these policies will reduce, but not eliminate, regulatory lag associated with traditional rate making processes. However, the Company strives to use these and other regulatory policies to address issues of regulatory lag wherever appropriate. It is also our strategy to expand their use in areas where they may not currently apply.

Environmental, Health and Safety and Water Quality Regulation

Our water and wastewater operations are subject to extensive United States federal, state and local laws and regulations, and in the case of our Canadian operations, Canadian laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat, discharge and dispose of wastewater. We are also subject to certain regulations regarding fire protection services in the areas we serve. These regulations include the Safe Drinking Water Act, the Clean Water Act and other federal, state, local and Canadian laws and regulations governing the provision of water and wastewater services, particularly with respect to the quality of water we distribute. We also are subject to various federal, state, local and Canadian laws and regulations governing the storage of hazardous materials, the management and disposal of hazardous and solid wastes, discharges to air and water, the cleanup of contaminated sites, dam safety and other matters relating to the protection of the environment and health and safety. State PUCs also set conditions and standards for the water and wastewater services we deliver.

Environmental, health and safety and water quality regulations are complex and change frequently. The overall trend has been that they have become more stringent over time. As newer or stricter standards are introduced, our capital and operating costs could increase. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation to which our Regulated Businesses are subject. In the past, we have generally been able to recover costs associated with compliance related to environmental, health and safety standards, but this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery.

We maintain an appropriate environmental policy including responsible business practices, compliance with environmental laws and regulations, effective use of natural resources, and stewardship of biodiversity. We believe that our operations are materially in compliance with, and in many cases surpass, minimum standards required by applicable environmental laws and regulations. Water samples from across our water systems are analyzed on a regular basis for material compliance with regulatory requirements. Across the Company, we conduct over one million water quality tests each year at our laboratory facilities and plant operations, including continuous on-line instrumentations such as monitoring turbidity levels, disinfectant residuals and adjustments to chemical treatment based on changes in incoming water. For 2013, we achieved a score of greater than 99% for drinking water compliance and according to the EPA statistics, American Water's performance has been far better than the industry average over the last several years. In fact, in 2013, American Water was 20 times better than the industry average for compliance with drinking water quality standards (Maximum Contaminant Levels) and 150 times better for compliance with drinking water monitoring and reporting requirements.

We participate in the Partnership for Safe Water, the United States EPA's voluntary program to meet more stringent goals for reducing microbial contaminants. With 6 8 of our 82 surface water plants receiving the program's "Director" award, we account for approximately one-third of the plants receiving such awards nationwide. In addition, 63 American Water plants have received the "Five-Year Phase III" award, while 60 have been awarded the "Ten-Year Phase III" award. Additionally, three plants received the inaugural "Fifteen-Year Phase III" award in 2013.

Safe Drinking Water Act

The Federal Safe Drinking Water Act and regulations promulgated thereunder establish national quality standards for drinking water. The EPA has issued rules governing the levels of numerous naturally occurring and man-made chemical and microbial contaminants and radionuclides allowable in drinking water and continues to propose new rules. These rules also prescribe testing requirements for detecting regulated contaminants, the treatment systems which may be used for removing those contaminants and other requirements. Federal and state water quality requirements have become increasingly stringent, including increased water testing requirements, to reflect public health concerns. To date, the EPA has set standards for approximately 90 contaminants and indicators for drinking water. Further, certain of our water systems are in the process of monitoring for 28 additional contaminants that are not currently regulated to help the EPA determine if any of them occur at high enough levels to warrant being regulated. There are thousands of other chemical compounds that are not regulated, many of which are lacking a testing methodology, occurrence data, health effects information and/or treatment technology.

To effect the removal or inactivation of microbial organisms, the EPA has promulgated various rules to improve the disinfection and filtration of drinking water and to reduce consumers' exposure to disinfectants and byproducts of the disinfection process. In January 2006, the EPA promulgated the Long-term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproduct Rule. In October 2006, the EPA finalized the Ground Water Rule, applicable to water systems providing water from underground sources. The EPA also revised the monitoring and reporting requirements of the existing Lead and Copper Rule in 2007 and Congress enacted the Reduction of Lead in Drinking Water Act on January 4, 2011 regarding the use and introduction into commerce of lead pipes, plumbing fittings or fixtures, solder and flux. In 2012, the EPA finalized revisions to the Total Coliform Rule that were part of the mandate of a Federal Advisory Committee appointed to negotiate the changes. Most of the anticipated changes to the rule will not be effective until 2016. The EPA is actively considering regulations for a number of contaminants, including hexavalent chromium, fluoride, nitrosamines, perchlorate, some pharmaceuticals and certain volatile organic compounds, but we do not anticipate that any of these regulations will require implementation in 2014.

Although it is difficult to project the ultimate costs of complying with the above or other pending or future requirements, we do not expect current requirements under the Safe Drinking Water Act to have a material impact on our operations or financial condition. In addition, capital expenditures and operating costs to comply with environmental mandates traditionally have been recognized by PUCs as appropriate for inclusion in establishing rates. As a result, we expect to fully recover the operating and capital costs resulting from these pending or future requirements.

Clean Water Act

The Federal Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and groundwater. In addition to requirements applicable to our wastewater collection systems, our operations require discharge permits under the National Pollutant Discharge Elimination System ("NPDES") permit program established under the Clean Water Act. Pursuant to the NPDES program, the EPA or implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. We believe that we maintain the necessary permits and approvals for the discharges from our water and wastewater facilities. From time to time, discharge violations occur at our facilities, some of which result in fines. We do not expect any such violations or fines to have a material impact on our results of operations or financial condition.

Other Environmental, Health and Safety and Water Quality Matters

Our operations also involve the use, storage and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals which generate wastes that require proper handling and disposal under applicable environmental requirements. We also could incur remedial costs in connection with any contamination relating to our operations or facilities or our off-site disposal of wastes. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the United States Occupational Safety and Health Act and are subject to inspections thereunder. For further information, see "Business—Research and Development."

Certain of our subsidiaries are involved in pending legal proceedings relating to environmental matters. These proceedings are described further in the section entitled "Item 3—Legal Proceedings."

Competition

In our Regulated Businesses, we generally do not face direct competition in providing services in our existing markets because (i) we operate within those markets pursuant to certificates of public convenience and necessity (or similar authorizations) issued by state PUCs; and (ii) the high cost of constructing a new water and wastewater system in an existing market creates a barrier to market entry. Our Regulated Businesses do face competition from governmental agencies, other investor-owned utilities, large industrial customers with the ability to provide their own water supply/treatment process and strategic buyers that are entering new markets and/or making strategic acquisitions. Our largest investor-owned competitors, when pursuing acquisitions, based on a comparison of operating revenues and population served, are Aqua America Inc., United Water (owned by Suez Environnement), American States Water Co. and California Water Services Group.

Condemnation

The potential exists that all or portions of our subsidiaries' utility assets could be acquired by municipalities or other local government entities through one or more of the following methods:

- eminent domain (also known as condemnation);
- the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity was granted; and
- the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its certificate.

The acquisition consideration related to such a transaction initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular franchise or charter. We believe our operating subsidiaries would be entitled to fair market value for any assets required to be sold, and we are of the opinion that fair market value would be in excess of the book value for such assets.

We are periodically subject to condemnation proceedings in the ordinary course of business. For example, condemnation threats have been made over the last several years with respect to the following systems:

- Chicago, Illinois area. The municipalities of Homer Glen (approximately 7,400 customer connections) and Bolingbrook (approximately 21,500 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities formed a water agency to pursue eminent domain of the water pipeline that serves those five communities. Before filing its eminent domain lawsuit in January 2013, the water agency made an offer of $37.6 million for the pipeline.
- Mooresville, Indiana: The Town of Mooresville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooresville operations in August 2012. A jury trial is scheduled for April 15 - 18, 2014. The Town has offered $6.5 million for the utility, the company's appraisal valued it at $24.1 million, and the court appointed appraisers established a value of $14.5 million.
- Monterey, California: A citizens group in Monterrey, California (approximately 40,000 customer connections submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of California American Water's Monterey service district.

We actively monitor condemnation activities that may affect us as soon as we become aware of them. We do not believe that condemnation poses a material threat to our ability to operate our Regulated Businesses.

Our Market-Based Operations

In addition to our Regulated Businesses, we operate the following lines of business in our Market-Based Operations. Of the lines of business outlined below; no single group within our Market-Based Operations generates in excess of 10% of our aggregate consolidated revenue.

Contract Operations Group

Our Contract Operations Group enters into public/private partnerships, including O&M and Design, Build and Operate ("DBO") contracts for the provision of services to water and wastewater facilities for the United States military, municipalities, the food and beverage industry and other customers. We typically make no long-term capital investment under these contracts with municipalities and other customers; instead we perform our services for a fee. During the contract term, we may make limited short term capital investments under our contracts with the United States military and certain industrial customers. Our Contract Operations Group generated revenue of $212.6 million in 2013, representing 65.3% of revenue for our Market-Based Operations.

We are party to more than 70 contracts, varying in size and scope, across the United States and Canada, with contracts ranging in terms from one to 50 years. Included in these contracts are ten 50-year contracts, including the Hill Air Force Base contract that was awarded to us in January 2014, with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases. All of our contracts with the U.S. government may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or non-performance by the subsidiary performing the contract. In either event, pursuant to the standard terms of the U.S. government contract termination provisions, we would be entitled to recover allowable costs that we may have incurred under the contract, plus the contract profit margin on incurred costs. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions.

On December 31, 2011, we completed the sale of our Applied Water Management, Inc. group ("AWM"). As noted above, this subsidiary is included in discontinued operations for all periods presented. Therefore, all amounts and statistics disclosed for the Contract Operations Group refer only to on-going operations of the Contract Operations Group.

Homeowner Services Group

Our Homeowner Services Group, through our Service Line Protection Program, provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes and clogged or blocked sewer pipes inside and outside their accommodations. These repairs are not typically covered by homeowners' insurance or by their water or sewer service provider.

Our LineSaver™ program involves partnering with municipalities to offer our protection programs to homeowners serviced by the municipalities. During 2012, we entered into a contract with the New York City Water Board (the "Board"), a corporate municipal instrumentality of the State of New York, to offer our LineSaver™ program to the Board's approximately 650,000 homeowners throughout the city's five boroughs. As of December 31, 2013, our Homeowner Services Group has approximately 1.3 million customer contracts in 37 states, including the New York City customer contracts.

Terratec Environmental Ltd

Our Market-Based Operations also includes our biosolids management group, Terratec, which is located in Canada and provides environmentally sustainable management and disposal of biosolids and wastewater by-products.

Competition

We face competition in our Market-Based Operations from a number of service providers, including Veolia Environnement, American States Water, OMI and Southwest Water, particularly in the area of O&M contracting. Securing new O&M contracts is highly competitive, as these contracts are awarded based on a combination of customer relationships, service levels, competitive pricing, references and technical expertise. We also face competition in maintaining existing O&M contracts to which we are a party, as the municipal and industrial fixed term contracts frequently come up for renegotiation and are subject to an open bidding process.

Our Homeowner Services Group faces competition outside our existing footprint primarily from HomeServe USA and Utility Service Partners, Inc.

Research and Development

We established a formal research and development program in 1981 with the goal of improving water quality and operational effectiveness in all areas of our business. Our research and development personnel are located in New Jersey. In addition, our quality control and testing laboratory in Belleville, Illinois supports research through sophisticated testing and analysis. Since its inception, our research and development program has evolved to become a leading water-related research program, achieving advancements in the science of drinking water, including sophisticated water testing procedures and desalination technologies.

Since the formation of the EPA in 1970, we have collaborated with the agency to achieve effective environmental, health and safety and water quality regulation. This relationship has developed to include sharing of our research and national water quality monitoring data in addition to our treatment and distribution system optimization research. Our engagement with the EPA has helped us to achieve a leadership position for our company within the water and wastewater industry and has provided us with early insight into emerging regulatory issues and initiatives, thereby allowing us to anticipate and to accommodate our future compliance requirements.

In 2013, we spent $2.9 million on research and development compared to $2.8 million and $2.6 million spent in 2012 and 2011, respectively. Approximately one-quarter of our research budget is comprised of competitively awarded outside research grants. Such grants reduce the cost of research and allow collaboration with leading national and international researchers.

We believe that continued research and development activities are critical in providing quality and reliable service at reasonable rates, in maintaining our leadership position in the industry and will provide us with a competitive advantage as we seek additional business with new and existing customers.

Support Services

Our American Water Works Service Company subsidiary provides shared services and corporate governance that achieve economies of scale through central administration. These services are provided predominantly to our Regulated Businesses under the terms of contracts with these companies that have been approved by state PUCs, where necessary. These services, which are provided at cost, may include accounting, administration, business development, communications, corporate secretarial, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, legal, operations, procurement, rates, security, risk management, water quality and research and development. These arrangements afford our operating companies professional and technical talent on an economical and timely basis. We also operate two national customer service centers, which are located in Alton, Illinois and Pensacola, Florida.

Our security department provides oversight and governance of physical and information security throughout our operations and is responsible for designing, implementing, monitoring and supporting active and effective physical and information security controls. We have complied with EPA regulations concerning vulnerability assessments and have made filings to the EPA as required. Vulnerability assessments are conducted regularly to evaluate the effectiveness of existing security controls and serve as the basis for further capital investment in security for the facility. Information security controls are deployed or integrated to prevent unauthorized access to company information systems, assure the continuity of business processes dependent upon automation, ensure the integrity of our data and support regulatory and legislative compliance requirements. While we do not make public comments on the details of our security programs, we are in contact with federal, state and local law enforcement agencies to coordinate and improve the security of our water delivery systems and to safeguard our water supply.

Employee Matters

Approximately 50% of our workforce is represented by unions. We have 76 collective bargaining agreements in place with 18 different unions representing our unionized employees. We have three union contracts beyond expiration that affect approximately 200 employees, all of which are actively working under the old agreements. During 2014, 22 of our local union contracts will expire.

September 2010, we declared "impasse" in negotiations of our national benefits agreement with most of the labor unions representing employees in our Regulated Businesses. The prior agreement expired on July 31, 2010; however negotiations did not produce a new agreement . We implemented our last, best and final offer on January 1, 2011 in order to provide health care coverage for our employees in accordance with terms of the offer. The unions have challenged our right to implement our last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board ("NLRB") issued a complaint against us in January 2012, claiming that we implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor. We asserted that we did, in fact, provide sufficient notice.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although we did provide sufficient notification to the Federal Mediation and Conciliation Service, we did not provide notice to state agencies, in violation of the National Labor Relations Act. The Administrative Law Judge ordered, among other things, that we cease and desist from implementing the terms of our last, best and final offer and make whole all affected employees for losses suffered as a result of our implementation of our last, best and final offer. The "make whole" order, if upheld on appeal, would require us to provide backpay plus interest, from January 1, 2011 through the date of the final determination. Based on current estimates and assumptions, we estimate the cash impact could be in the range of $3.0 to $3.5 million per year, with the total impact dependent on the length of time the issue remains unresolved. In November 2012, we filed an exception to the decision of the Administrative Law Judge in order to obtain a review by the full NRLB. We expect to hear from the NRLB in 2014.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, *http://www.amwater.com,* shortly after we file or furnish the information to the SEC. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at their Public Reference Room, located at 100 F Street N.E., Washington, D.C. 20549. The phone number for information about the operation of the Public Reference Room is 1-800-732-0330 (if you are calling from within the United States), or 202-551-8090. Because we electronically file our reports, you may also obtain this information from the SEC internet website at *http://www.sec.gov.* You can obtain additional contact information for the SEC on their website.

The American Water corporate governance guidelines and the charters for each of the standing committees of the board of directors, together with the American Water Code of Ethics and additional information regarding our corporate governance, are available on our website, *http://www.amwater.com,* and will be made available, without charge, in print to any shareholder who requests such documents from Investor Relations Department, American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ, 08043.

ITEM 1A. RISK FACTORS

We operate in a market and regulatory environment that involves significant risks, many of which are beyond our control. In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position, results of operations or cash flows and liquidity.

Risks Related to Our Industry and Business

Our utility operations are subject to extensive economic regulation. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations.

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are economically regulated by state PUCs. Economic regulation affects the rates we charge our customers and has a significant impact on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, to enable us to finance the addition of new, or the replacement of existing, water and wastewater infrastructure and to provide us the opportunity to earn what they determine to be an appropriate rate of return on our invested capital and a return of our invested capital.

Our ability to successfully implement our business plan and strategy depends upon the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. We can provide no assurances that our rate increase requests will be approved, or that any approval will be given in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is sufficient to cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations; enable us to recover our investment; and provide us an opportunity to earn an appropriate rate of return on our investment, in which case our business, financial condition, results of operations, cash flow and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital and a return of our invested capital to the extent permitted by state PUCs. This could occur if water usage is less than anticipated in establishing rates, as billings to customers are, to a considerable extent, based on usage in addition to a base rate, or if our investments or expenses prove to be higher than was estimated in establishing rates.

Our operations and the quality of water we supply are subject to extensive environmental, water quality and health and safety laws and regulations. Compliance with increasingly stringent laws and regulations could impact our operating costs; and violations of such laws and regulations could subject the Company to substantial liabilities and costs.

Our water and wastewater operations are subject to extensive United States federal, state and local laws and regulations and, in the case of our Canadian operations, Canadian laws and regulations that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, discharge and dispose of wastewater. These requirements include the United States Clean Water Act of 1972, which we refer to as the Clean Water Act, and the United States Safe Drinking Water Act of 1974, which we refer to as the Safe Drinking Water Act, and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations. For example, recently the Monterey County Health Department, Environmental Health Bureau ("MCHD") notified our subsidiary, California American Water ("CAWC") that the MCHD had received a complaint filed with the Department of Toxic Substance Control regarding arsenic levels and disposal locations of sludge generated from the company's Ambler Park and Toro water treatment plants prior to May 2013. MCHD requested that CAWC provide MCHD with sludge disposal records, analytical results and supporting documentation related to this matter. Through two separate letters, CAWC submitted the requested documentation and information to MCHD and advised MCHD that, based on the analysis performed, it appears that some of the residual wastes from the two plants, as well as CAWC's Ryan Ranch water treatment plant, may have exceeded California hazardous waste soluble threshold limit concentration requirements and, therefore, should not have not been disposed of at the non-hazardous disposal facilities to which they were transported. CAWC further advised MCHD that, in light of the findings, CAWC modified its procedures to insure that wastes sent for disposal are properly characterized and managed. CAWC similarly reported to the Sacramento County Department of Environmental Management that it may have improperly disposed of arsenic residuals from its Isleton treatment plant before July 2013. By letter dated November 6, 2013, the Monterey County District Attorney advised CAWC that it had received a report from the MCHD that CAWC had transported and disposed such hazardous wastes in violation of applicable provisions of the California Health and Safety Code and the California Business and Professions Code which subject violators to civil penalties of up to $25,000 per violation and up to $2,500 per violation, respectively. The District Attorney invited CAWC to arrange a meeting to discuss the matter prior to taking any enforcement action, and a meeting was held on November 20, 2013. The District Attorney has not indicated whether enforcement action will be taken. Similarly, CAWC continues to discuss the matter relating to the Isleton Treatment Plant with the Sacramento County Department of Environmental Management, which has not indicated whether enforcement action will be taken. The Company is unable to predict the outcome of this matter.

In addition, state PUCs also set conditions and standards for the water and wastewater services we deliver. If we deliver water or wastewater services to our customers that do not comply with regulatory standards, or otherwise violate environmental laws, regulations or permits, or other health and safety and water quality regulations, we could incur substantial fines, penalties or other sanctions or costs, as well as damage to our reputation. In the most serious cases, regulators could force us to discontinue operations and sell our operating assets to another utility or to a municipality. Given the nature of our business which, in part, involves supplying water for human consumption, any potential non-compliance with, or violation of, environmental, water quality and health and safety laws or regulations would likely pose a more significant risk to us than to a company not similarly involved in the water and wastewater industry.

We incur substantial operating and capital costs on an ongoing basis to comply with environmental, water quality and health and safety laws and regulations. These laws and regulations, and their enforcement, generally have become more stringent over time, and new or stricter requirements could increase our costs. Although we may seek to recover ongoing compliance costs in our rates, there can be no guarantee that the various state PUCs or similar regulatory bodies that govern our Regulated Businesses would approve rate increases to recover such costs or that such costs will not materially and adversely affect our financial condition, results of operations, cash flows and liquidity.

We may also incur liabilities if, under environmental laws and regulations, we are required to investigate and clean up environmental contamination at our properties, including potential spills of hazardous chemicals, such as chlorine, which we use to treat water, or at off-site locations where we have disposed of waste or caused an adverse environmental impact. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs and could adversely affect our financial condition, results of operations, cash flows and liquidity. Such remediation costs may not be covered by insurance and may make it difficult for us to secure insurance at acceptable rates in the future.

Limitations on availability of water supplies or restrictions on our use of water supplies as a result of government regulation or action may adversely affect our access to sources of water, our ability to supply water to customers or the demand for our water services.

Our ability to meet the existing and future demand of our customers depends on the availability of an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights (determined by legislation or court decisions) and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing-flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements, which can change from time to time, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water. For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with an October 20, 2009 order of the California State Water Resources Control Board (the "2009 Order") that our subsidiary, CAWC, significantly decrease its diversion from the Carmel River in accordance with a reduction schedule running through December 31, 2016 (the "2016 Deadline"). We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. We have implemented conservation rates and other programs to address demand and are utilizing aquifer storage and recovery facilities to store winter water for summer use. We were hopeful that we could address the water supply issues in a meaningful way through a Regional Desalination Project (the "Project") that was to be implemented through a Water Purchase Agreement and ancillary agreements (the "Agreements") among the Marina Coast Water District ("MCWD"), the Monterey County Water Resources Agency ("MCWRA") and CAWC. However, the Project was subject to considerable delay and disputes among the parties. On July 7, 2011, MCWRA advised MCWD and CAWC that the Agreements were void, and on January 17, 2012, CAWC publicly announced that it had withdrawn support of the Project. Finally, on July 12, 2012, the California Public Utility Commission ("CPUC") closed the proceedings relating to the Project. Nevertheless, disputes among the parties with respect to the Project continued thereafter, and, while CAWC and MCWRA have entered into a settlement agreement to resolve their disputes, the terms of the settlement agreement are largely contingent on approval by the CPUC of the settlement agreement, as well as CAWC's recovery through rates of its provision to MCWRA of $1.9 million in loan forgiveness and up to approximately $1.5 million in additional payments. Moreover CAWC's disputes with MCWD remain unresolved and subject to ongoing litigation, although CAWC and MCWD currently are subject to an agreement with respect to certain claims by CAWC against MCWD that tolls the applicable statute of limitations and a deadline for commencement by CAWC of litigation relating to certain of its claims against MCWD. Following its withdrawal of support for the Project, CAWC filed an application with the CPUC on April 23, 2012 for approval of the Monterey Peninsula Water Supply Project (the "New Project"). The New Project involves construction of a desalination plant and related facilities, all to be owned by CAWC. In addition, the New Project may encompass CAWC's purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project, a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District ("MPWMD"). The application also seeks CPUC approval of ratemaking mechanisms designed to enable CAWC to recover its costs related to construction and operation of the New Project, including funding for principal and interest on a State Revolving Fund Loan that CAWC believes it is eligible to receive. Under a July 2012 settlement agreement among CAWC and 15 other parties that have intervened in the CPUC proceedings with respect to the New Project, including several Monterey County government entities the parties have agreed to, among other things, cost caps for the desalination plant and certain pipeline facilities to be constructed by CAWC aggregating $295.7 million to $338.4 million, depending on the size of the desalination plant ultimately approved by the CPUC. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to CAWC, and, if the

GWR Project supplies water to CAWC, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water. The settlement agreements are subject to the approval of the CPUC and will not take effect unless the CPUC determines they are reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed New Project, currently scheduled for the first quarter of 2015. CAWC's ability to move forward on the New Project will be subject to extensive administrative review, including public hearings before the CPUC and testimony from intervening parties. In addition, a large number of federal, state and local approvals must also be obtained. moreover, due to delays related to, among other things, determination of the need for government approval to proceed with certain testing required to enable the preparation of the environmental impact report, CAWC currently estimates that the earliest date by which the New Project could be completed is mid to late 2018. Because the projected completion date is beyond the 2016 Deadline, CAWC has commenced discussions with the State Water Resources Control Board and other government representatives to extend the 2016 Deadline. While CAWC believes the discussions have been constructive, we cannot assure that that the 2016 Deadline will be extended. We cannot predict the ultimate effect of the events described above on CAWC's efforts to secure alternative sources of water, or on CAWC's exposure to liabilities as a result of its ongoing disputes relating to the Project or its inability to meet the 2016 Deadline under the 2006 Order. If CAWC is unable to secure an alternative source of water, or if other adverse consequences result from the events described above, our business, financial condition, results of operations and cash flows could be adversely affected.

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas. If a regional drought were to occur, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. For example, as a result of the reduced rain fall and overall dry conditions throughout the state of California, CAWC has been closely monitoring its owned and purchased water supplies. On January 17, 2014, the California Governor issued a drought declaration asking Californians to reduce their water use by 20%. At this time, CAWC is awaiting determination by CPUC staff on an advice letter CAWC submitted that would clarify the water conservation and rationing plan for certain districts in CAWC's tariffs, including a conservation and rationing mechanism for the Sacramento district. The CPUC suspended the effective date of the advice letter until after CAWC holds a public meeting for the Sacramento district. During a February 2014 meeting between the CPUC staff and representatives from several water utilities, including CAWC, participants noted that the drought may result in utilities opening the Catastrophic Event Memorandum Accounts in all districts, which affords the opportunity to seek recovery of extraordinary expenditures related to the drought. Following drought conditions, water demand may not return to pre-drought levels even after restrictions are lifted. Decreased use of water services resulting from any of these events may adversely affect our business, financial condition, results of operations and cash flows.

Service disruptions caused by severe weather conditions may disrupt our operations and economic conditions may reduce the demand for water services, either of which could adversely affect our financial condition and results of operations.

Service interruptions due to severe weather events are possible across all our service areas. These include winter storms and freezing conditions, high wind conditions, tornados, earthquakes, coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, hurricanes and severe electrical storms. These weather events may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. In the third quarter of 2011, our New Jersey and Pennsylvania subsidiaries experienced service interruptions in certain of our operating areas and, in some cases, a loss in customers as a result of the extreme weather, including Hurricane Irene and other severe storms in the Northeast. In October 2012, our east coast subsidiaries were affected by Hurricane Sandy. The most significant impact to our business was caused by the widespread power outages caused by the storm's heavy winds, rain and snow.

In addition, adverse economic conditions can cause our customers, particularly industrial customers, to curtail operations. A curtailment of operations by an industrial customer would typically result in reduced water usage. In more severe circumstances, the decline in usage could be permanent. Any decrease in demand resulting from difficult economic conditions could adversely affect our financial condition and results of operations.

Regulatory and environmental risks associated with the collection, treatment and disposal of wastewater may impose significant costs.

The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve significant environmental risks. If collection or treatment systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable in rates. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. Moreover, if we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

The current regulatory rate setting structure may result in a significant delay, or "regulatory lag," from the time that we invest in infrastructure improvements, incur increased operating expenses or experience declining water usage, to the time at which we can address these events through the rate case application process; our inability to minimize regulatory lag could adversely affect our business.

There is typically a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating expense increase and the time when those costs are reflected in rates. In addition, billings permitted by state PUCs typically are, to a considerable extent, based on the volume of water usage in addition to a mini mum base rate. Thus, we may experience a regulatory lag between the time our revenues are affected by declining usage and the time we are able to adjust the rate per gallon of usage to address declining usage. Our inability to reduce this regulatory lag could have an adverse effect on our financial condition, results of operations, cash flow and liquidity.

The Company endeavors to reduce regulatory lag by pursuing positive regulatory policies. For example, seven state PUCs permit rates to be adjusted outside of the rate case application process through surcharges that address certain capital investments, such as replacement of aging infrastructure. These surcharges are adjusted periodically based on factors such as project completion or future budgeted expenditures, and specific surcharges are eliminated once the related capital investment is incorporated in new PUC approved rates. Other examples of such programs include states that allow us to increase rates for certain cost increases that are beyond the utility's control, such as purchased water costs or property or other taxes, or power, conservation, chemical or other expenditures. These surcharge mechanisms enable us to adjust rates closer to the time costs have been incurred than would be the case under the rate case application process. While these programs have been a positive development and we continue to work for expansion of programs to mitigate regulatory lag, some state PUCs have not approved such programs and there is no assurance that any PUC will adopt any of them in the future or that existing programs will continue in their current form, or at all, in the future. Furthermore, no state has adopted surcharge programs that include all elements of cost that may change between general rate proceedings. Although we intend to continue our efforts to expand state PUC approval of surcharges to address issues of regulatory lag, our efforts may not be successful, in which case our business, financial condition, results of operations, cash flow and liquidity may be adversely affected.

Our Regulated Businesses require significant capital expenditures and may suffer if we fail to secure appropriate funding to make investments, or if we experience delays in completing major capital expenditure projects.

The water and wastewater utility business is very capital intensive. We invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2013, we invested $9 50 million in net Company-funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems could increase in the future. We fund capital improvement projects using cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and issuances of long-term debt and equity securities. We can provide no assurance that we will be able to access the debt and equity capital markets on favorable terms or at all.

In addition, we could be limited in our ability to both pursue growth and pay dividends in line with our dividend policy. In particular, the use of cash to pay dividends could affect our ability to make large acquisitions or pursue other growth opportunities that require cash investments in amounts greater than our available cash and external financing resources. In order to fund construction expenditures, acquisitions (including tuck-in acquisitions), principal and interest payments on our indebtedness, and dividends at the level currently anticipated under our dividend policy, we expect that we will need additional financing. However, we intend to retain sufficient cash from operating activities after the distribution of dividends to fund a portion of our capital expenditures.

If we do not obtain sufficient capital, we may be unable to maintain our existing property, plant and equipment, realize our capital investment strategies, meet our growth targets and successfully expand the rate base upon which we are able to earn future returns on our investment and a return of our investment. Even if we have adequate resources to make required capital expenditures, we face the additional risk that we will not complete our major capital expenditures on time, as a result of construction delays or other obstacles. Each of these outcomes could adversely affect our financial condition and results of operations.

Weather conditions could adversely affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand tends to vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Market conditions may unfavorably impact the value of benefit plan assets and liabilities, as well as assumptions related to the benefit plans, which may require us to provide significant additional funding.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. These assets are subject to market fluctuations, which may cause investment returns to fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets can increase the funding requirements under our pension and postretirement benefit plans if future returns on these assets are insufficient to offset the decline in value. Additionally, the Company's pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. If interest rates decrease, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, such as increases in life expectancy assumptions may also increase the funding requirements of our obligations related to the pension and other postretirement benefit plans. Future increases in pension and other postretirement costs as a result of reduced plan assets may not be fully recoverable in rates, and our results of operations and financial position could be negatively affected.

In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension and postretirement plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased, which could adversely affect our financial position and results of operations.

Our indebtedness could affect our business adversely and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flows to satisfy our liquidity needs.

As of December 31, 2013, our indebtedness (including preferred stock with mandatory redemption requirements) was $5,874.5 million, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital requirements or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at a variable rate;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- impairing our access to the capital markets for debt and equity
- likely requiring that an increasing portion of our cash flows from operations be dedicated to the payment of the principal and interest on our debt, thereby reducing funds available for future operations, acquisitions, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our revolving credit facility or issue new debt securities in the capital markets. Moreover, additional borrowings may be required to refinance outstanding indebtedness. Debt maturities and sinking fund payments in 2014 and 2015 are $14.2 million and $60.7 million, respectively. We can provide no assurances that we will be able to access the debt capital markets on favorable terms, if at all. If new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

We will depend primarily on operations to fund our expenses and to pay the principal and interest on our outstanding debt. Therefore, our ability to pay our expenses and satisfy our debt service obligations depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors beyond our control. If we do not have sufficient cash flows to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, sell assets, borrow additional funds or sell additional equity. In addition, if our business does not generate sufficient cash flows from operations, or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to changes in our business, which could cause our operating results and prospects to be affected adversely.

Contamination of our sources of water could result in service interruptions and human exposure to hazardous substances and subject our subsidiaries to civil or criminal enforcement actions, private litigation and cleanup obligations.

Our water supplies into our treatment plants or the supplies then delivered into our distribution system are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as perchlorate and methyl tertiary butyl ether, and possible terrorist attacks. If one of our water supplies is contaminated, depending on the nature of the contamination, we may have to either 1) interrupt the use of that water supply and locate an adequate supply of water from another water source, including, in some cases, through the purchase of water from a third-party supplier, or 2) continue the water supply under a "Do Not Use" protective order that allows for continuation of basic sanitation and essential fire protection. If service is disrupted and we are unable to access a substitute water supply in a cost-effective manner, our financial condition, results of operations, cash flows, liquidity and reputation may be adversely affected. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. We might not be able to recover costs associated with treating or decontaminating water supplies through rates, or recovery of these costs may not occur in a timely manner. Moreover, we could be held liable for environmental damage as well as damages arising from toxic tort or other lawsuits, criminal enforcement actions, contractual obligations or other consequences arising out of human exposure to hazardous substances in our drinking water supplies.

In this regard, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal (4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglocol ethers), into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection ("DEP") (Freedom Industries first notified DEP on January 21, 2014 that PPH was also leaked), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state, and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order to approximately 300,000 people in parts of nine West Virginia counties. The order addressed the use of water for drinking, cooking, washing, and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention ("CDC") and U.S. Environmental Protection Agency indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals are at a non-detectable level remained in place. In addition, based on re-analysis of previously saved samples, PPH was no longer detected at any sampling locations as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM are below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC is continuing sampling and testing in an effort to pinpoint its flushing activities and address odor issues.

WVAWC has and may continue to incur significant costs in responding to this incident and may not be able to recover such costs through rates or from insurers. Even if recovery is possible, it may not occur in a timely manner. Moreover, government investigations relating to the Freedom Industries spill have been initiated, state and federal legislatures have begun considering changes to existing laws, and more than 50 lawsuits have been filed to date against WV AWC and, in a few cases, the Company or other Company affiliates. Freedom Industries (which is now in bankruptcy) is also named in many of the complaints. In addition, a purported stockholder has made a demand that the Company's board of directors take action to remedy alleged breaches of fiduciary duties by all of the members of the board and another Company officer in connection with this matter, which is being referred to the board of directors for its consideration. While the Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company and WVAWC believe they and other Company affiliates have valid, meritorius defenses to the lawsuits, WVAWC will incur substantial defense costs. Moreover, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might impact water utility operations.

Work stoppages and other labor relations matters could adversely affect our results of operations.

Approximately 50% of our workforce is represented by unions. We have 76 collective bargaining agreements in place with 18 different unions representing our unionized employees. We might not be able to renegotiate labor contracts on terms that are fair to us. Any negotiations or dispute resolution processes undertaken in connection with our labor contracts could be delayed or affected by labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages, and our failure to obtain favorable labor contract terms during renegotiations may adversely affect our financial condition, results of operations, cash flows and liquidity. In September 2010, we declared "impasse" in negotiations of our national benefits agreement with most of the labor unions representing employees in our Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. We implemented our "last, best and final" offer on January 1, 2011 in order to provide health care coverage for our employees in accordance with the terms of the offer. The unions have challenged our right to implement our last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board ("NLRB") issued a complaint against us in January 2012, claiming that we implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor. We have asserted that we did, in fact, provide sufficient notice. On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although we did provide sufficient notification to the Federal Mediation and Conciliation Service, we did not provide notice to state agencies, in violation of the National Labor Relations Act. The Administrative Law Judge ordered, among other things, that we cease and desist from implementing the terms of our last, best and final offer and make whole all affected employees for losses suffered as a result of our implementation of our last, best and final offer. The "make whole" order, if upheld on appeal, would require us to provide backpay plus interest, from January 1, 2011 through the date of the final determination by the NLRB. Based on current estimates and assumptions, we estimate the cash impact could be in the range of $3.5 to $4.5 million per year, with the total impact dependent on the length of time the issue remains unresolved. In November 2012, we filed an exception to the decision of the Administrative Law Judge in order to obtain a review by the full NLRB. Although no work stoppages have occurred with respect to the expired contracts described above, we cannot provide assurance that a work stoppage or strike will not occur. While we have developed contingency plans to be implemented as necessary if a work stoppage or strike does occur, we cannot assure that a strike or work stoppage would not have a material adverse impact on our results of operations, financial position or cash flows.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own 87 dams. A failure of any of those dams could result in personal injury and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

We also are required from time to time to decommission, repair or upgrade the dams that we own. The cost of such repairs can be and has been material. We might not be able to recover such costs through rates. The inability to recover these higher costs or delayed recovery of the costs as a result of regulatory lag can affect our financial condition, results of operations, cash flows and liquidity. The federal and state agencies that regulate our operations may adopt rules and regulations requiring us to dismantle our dams.

Any failure of our network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

Our operating subsidiaries distribute water and collect wastewater through an extensive network of pipes and storage systems located across the United States. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water and wastewater delivery requirements prescribed by government regulators, including state PUCs with jurisdiction over our operations, and adversely affect our financial condition, results of operations, cash flows, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future. Moreover, to the extent such business interruptions or other losses are not covered by insurance, they may not be recovered through rate adjustments.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.

In addition to cash from operations, we rely on our revolving credit facility, commercial paper programs, and the capital markets to satisfy our liquidity needs. In this regard, our principal external source of liquidity is our revolving credit facility. We regularly use our commercial paper program as a principal source of short-term borrowing due to the generally more attractive rates we obtain in the commercial paper market. However, disruptions in the capital markets could limit our ability to access capital. While our credit facility lending banks have met all of their obligations, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry's financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. In order to meet our short-term liquidity needs, particularly if borrowings through the commercial paper market are unavailable, we maintain a $1.25 billion revolving credit facility. Under the terms of our revolving credit facility, commitments, which total $1.18 billion, mature in October 2018. Our inability to maintain, renew or replace these commitments could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity.

American Water Capital Corp. ("AWCC"), our financing subsidiary, had no outstanding borrowings under the revolving credit facility and $ 41.6 million of outstanding letters of credit under the credit facility as of February 21, 2014. AWCC had $629.9 million of outstanding commercial paper as of February 21, 2014. We cannot assure that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Longer term disruptions in the capital and credit markets as a result of uncertainty, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital and credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures.

Any impediments to our access to the capital markets, failure of our lenders to meet their commitments, increased interest expense, or cash conservation measures resulting from financial market disruptions or otherwise could adversely affect our business, financial condition, results of operations, cash flow, and liquidity.

Changes in laws and regulations over which we have no control and changes in certain agreements can significantly affect our business and results of operations.

New legislation, regulations, government policies or court decisions can materially affect our operations. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as regulators and the policies of the regulatory agencies that they serve. New laws or regulations, new interpretations of existing laws or regulations, changes in agency policy, including those made in response to shifts in public opinion, or conditions imposed during the regulatory hearing process may affect our business in a number of ways that could have an adverse effect on our business, financial condition, results of operations, cash flows and liquidity, including the following:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- changing water quality or delivery service standards, including storage capacity, or wastewater collection, treatment, discharge and disposal standards with which we must comply;
- restricting our ability to terminate our services to customers who owe us money for services previously provided or limiting our bill collection efforts;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to buy or sell assets or issue securities;
- changing regulations that affect the benefits we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
- making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- placing limitations, prohibitions or other requirements on the sharing of information and transactions by or between a regulated utility and its affiliates, including us, our service company and any of our other subsidiaries;
- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and
- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

An important part of our growth strategy is the acquisition of water and wastewater systems. Any future acquisitions we undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

An important element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- unknown capital expenditures;
- failure to maintain effective internal control over financial reporting;

- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly results;
- other acquisition-related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business, pay dividends and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. If consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities near our existing operations, thereby preventing us from acquiring them. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service territories. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations. Any of these risks may adversely affect our business, financial condition, and results of operations.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.

Our total assets include substantial goodwill. At December 31, 2013, our goodwill totaled $1,207.8 million. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003 and the acquisition of E'Town Corporation by a predecessor to our previous owner in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past. In the aggregate, goodwill impairment charges including those recognized in our discontinued operations taken in each year from 2006 through 2009 totaled approximately $1.93 billion and reduced net income by approximately $1.91 billion.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These market events could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in our market price consistent with our peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

The assets of our Regulated Businesses are subject to condemnation through eminent domain.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized efforts may arise from time to time in one or more of the service areas in which our Regulated Businesses operate to convert our assets to public ownership and operation through exercise of the governmental power of eminent domain. Should a municipality or other government subdivision seek to acquire our assets through eminent domain, we may resist the acquisition. For example, condemnation threats have been made over the last several years with respect to the following systems:

- Chicago, Illinois area. The municipalities of Homer Glen (approximately 7,400 customer connections) and Bolingbrook (approximately 21,500 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities formed a water agency to pursue eminent domain of the water pipeline that serves those five communities. Before filing its eminent domain lawsuit in January 2013, the water agency made an offer of $37.6 million for the pipeline.
- Mooresville, Indiana: The Town of Mooresville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooresville operations in August 2012. A jury trial for valuation is set for April 15-18, 2014. The Town originally appraised the system at $6.5 million, the company's appraisal valued it at $24.1 million, and the court appointed appraisers established a value of $14.5 million.
- Monterey, California: A citizens group in Monterey, California (approximately 40,000 customer connections) submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of California American Water's Monterey service district.

Contesting an exercise of condemnation through eminent domain may result in costly legal proceedings and may divert the attention of the affected Regulated Business's management from the operation of its business. Moreover, our efforts to resist the acquisition may not be successful.

If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain, there is a risk that we will not receive adequate compensation for the business, that we will not be able to keep the compensation, or that we will not be able to divest the business without incurring significant one-time charges.

We rely on our information technology ("IT") systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our IT systems are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. We depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. While we recently completed the business transformation implementation for our ERP, EAM and CIS systems, a number of our mission and business critical IT systems are older, such as our SCADA (Supervisory Control And Data Acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cyber security incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;

- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

These events may result in physical and/or electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of our outdated existing technology to allow us to continue to operate at our current level of efficiency.

We may not be able to fully utilize our U.S. and state net operating loss carryforwards.

As of December 31, 2013, we had U.S. federal and state net operating loss (“NOL”) carryforwards of approximately $1,182.1 million and $628.0 million, respectively. Our federal NOL carryforwards begin to expire in 2028, and our state NOL carryforwards will expire between 2014 and 2033. Our ability to utilize our NOL carryforwards is primarily dependent upon our ability to generate sufficient taxable income. Moreover, because our previous owner’s divestiture of its stock was considered an “ownership change” under Section 382 of the Internal Revenue Code, the amount of NOL carryforwards that may be utilized in any year is limited. Our management believes the federal NOL carryforwards are more likely than not to be recovered and therefore currently require no valuation allowance. At December 31, 2013, $130.6 million of the state NOL carryforwards have been offset by a valuation allowance because the Company does not believe these NOLs will more likely than not be realized in the future, and we have, in the past, been unable to utilize certain of our NOLs. The establishment or increase of a valuation allowance in the future would reduce our deferred income tax assets and our net income.

Our actual results may differ from those estimated by management in making its assessment as to our ability to use the NOL carryforwards. Moreover, changes in income tax laws, the economy and general business environment could affect the future utilization of the NOL carryforwards. If we are unable to fully utilize our NOL carryforwards to offset taxable income generated in the future, our financial position, results of operations and cash flows could be materially adversely affected.

Our Market-Based Operations, through American Water (excluding our regulated subsidiaries) provide performance guarantees, including financial guarantees or deposits, to our public-sector and public clients, who may seek to enforce the guarantees if our Market-Based Operations do not satisfy certain obligations.

Under the terms of some of our agreements for the provision of services to water and wastewater facilities with municipalities, other governmental entities and other customers, American Water (excluding our regulated subsidiaries) provides guarantees of specified performance obligations of our Market-Based Operations, including financial guarantees or deposits. In the event our Market-Based Operations fail to perform these obligations, the entity holding the guarantees may seek to enforce the performance commitments against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flows, and liquidity could be adversely affected.

At December 31, 2013, we had remaining performance commitments as measured by remaining contract revenue totaling approximately $2916.0 million and this amount is likely to increase if our Market-Based Operations grow. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms.

Our Market-Based Operations' long-term contracts with the Department of Defense may be terminated for the convenience of the U.S. Government and are subject to periodic contract price redetermination.

All of our contracts with the Department of Defense for the operation and maintenance of water and wastewater systems may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. Government or as a result of default or non-performance by the subsidiary performing the contract. In addition, the contract price for each of these military contracts is typically subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Any early contract termination or unfavorable price redetermination could adversely affect our results of operations.

We operate a number of water and wastewater systems under O&M contracts and face the risk that the owners of those systems may fail to maintain those systems, which may negatively affect us as the operators of the systems.

We operate a number of water and wastewater systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, and it is generally the responsibility of the owner to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Our Market-Based Operations are party to long-term contracts to operate and maintain water and wastewater systems under which we may incur costs in excess of payments received.

Some of our Market-Based Operations enter into long-term contracts pursuant to which they agree to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities, which includes responsibility for certain major maintenance for some of those facilities, in exchange for an annual fee. Our Market-Based Operations are generally subject to the risk that costs associated with operating and maintaining the facilities, including production costs such as purchased water, electricity, fuel and chemicals used in water treatment, may exceed the fees received from the municipality or other contracting party. In addition, directly or through our market-based subsidiaries, we often guarantee our Market-Based Operations' obligations under those contracts. Losses under these contracts or guarantees may adversely affect our financial condition, results of operations, cash flows and liquidity.

Our inability to efficiently optimize and stabilize our recently implemented business transformation project, could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

Over the past several years, we have implemented a "business transformation" project, which is intended to improve our business processes and upgrade our legacy core information technology systems. This multi-year, enterprise-wide initiative supports our broader strategic initiatives. The project is intended to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service capabilities. The scale and costs associated with the business transformation project were significant. Any technical or other difficulties in optimizing and stabilizing this initiative may increase the costs of the project and have an adverse effect on our operations and reporting processes, including our internal control over financial reporting. In August 2012, our new business systems associated with Phase I of our business transformation project became operational. Phase I consisted of the roll-out of the Enterprise Resource Planning systems ("ERP"), which encompass applications that handle human resources, finance, and supply chain/procurement management activities. In the second quarter of 2013, we implemented Phase II of our business transformation project in a number of our regulated subsidiaries. In the fourth quarter of 2013, Phase II of our business transformation project was implemented in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which manages an asset's lifecycle, and a Customer Information system, which contains all billing and collections data pertaining to American Water's customers for our Regulated segment. Although efforts have been made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

As we make adjustments to our operations, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. Further, we may not realize anticipated cost improvements and greater efficiencies from the project.

We operate numerous information technology systems that have varying degrees of integration, sometimes leading to inefficiencies. Therefore, delays in stabilization and optimization of the business transformation project will also delay cost savings and efficiencies expected to result from the project. We may also experience difficulties consolidating our current systems, moving to a common set of operational processes and implementing a successful change management process. These difficulties may impact our ability to meet customer needs efficiently. Any such delays or difficulties may have a material and adverse impact on our business, client relationships and financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our properties consist of transmission, distribution and collection pipe, water and wastewater treatment plants, pumping wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, software rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water, and the collection and treatment of wastewater. Substantially all of our properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of our mortgage bonds. We lease our corporate offices, equipment and furniture, located in Voorhees, New Jersey from certain of our wholly-owned subsidiaries. These properties are utilized by our directors, officers and staff in the conduct of the business.

Our regulated subsidiaries own, in the states in which they operate, transmission , distribution and collection pipes, pump stations, treatment plants, storage tanks, reservoirs and related facilities. A substantial acreage of land is owned by our Regulated Businesses, the greater part of which is located in watershed areas, with the balance being principally sites of pumping and treatment plants, storage reservoirs, tanks and standpipes. Additionally, property and facilities including such items as well fields, tanks, offices and operation centers, are also leased by our regulated subsidiaries. Our Market-Based Operations' properties consist mainly of spreading and waste transportation equipment, office furniture and IT equipment and are primarily located in New Jersey and Canada. Approximately 50% of our properties are located in New Jersey and Pennsylvania.

We maintain property insurance against loss or damage to our properties by fire or other perils, subject to certain exceptions. For insured losses, we are self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

We believe that our properties are generally maintained in good operating condition and in accordance with current standards of good water and wastewater works industry practice, and units of property are replaced as and when necessary.

ITEM 3. LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

In 1995, the California Water Resources Control Board (the “Water Resources Control Board”) issued an administrative order (the “1995 Order”) to California-American Water Company (“CAWC”) requiring CAWC to implement an alternative water supply in lieu of diversions from the Carmel River. The Water Resources Control Board held administrative hearings in the summer of 2008 to address claims that CAWC has exceeded its water diversion rights in the Carmel River and has not diligently pursued establishing an alternative water supply as required by the 1995 Order. The Water Resources Control Board adopted a Cease and Desist Order applicable to CAWC on October 20, 2009 (the “2009 Order”). The 2009 Order finds that CAWC has not sufficiently implemented actions to terminate its unpermitted diversions from the Carmel River as required by the 1995 Order. The 2009 Order requires, among other things, that CAWC significantly decrease its yearly diversions from the Carmel River according to a set reduction schedule running from the date the 2009 Order was adopted until December 31, 2016, at which point all unpermitted diversions must end. Failure to effect the decrease in diversions mandated by the 2009 Order could result in substantial penalties. We can provide no assurances that CAWC will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order or that any such compliance will not result in material additional costs or obligations to us. As noted below, CAWC does not expect to have sufficient alternative sources of water available by the December 31, 2016 deadline, and has begun discussions with the Water Resources Control Board to extend the deadline.

On December 2, 2010, the California Public Utilities Commission (“CPUC”) approved the Regional Desalination Project (the “Project”), involving the construction of a desalination facility on the California central coast, north of Monterey. The Project was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the “Agreements”) among the Marina Coast Water District (“MCWD”), the Monterey County Water Resources Agency (“MCWRA”) and CAWC. The desalination facility was to be constructed and owned by MCWD, and MCWRA was to construct the wells that were to supply water to the desalination facility. The Project was intended, among other things, to fulfill CAWC’s obligations under the 1995 Order, in addition to other obligations.

The Project was subject to delay due to, among other things, funding delays and investigations and inquiries initiated by public authorities relating to an alleged conflict of interest concerning a former member of the MCWRA Board of Directors (the “Former Director”). The Former Director was paid for consulting work by a contractor to MCWD while serving on the MCWRA Board of Directors. The contractor subsequently was retained as project manager for the Project. (On November 15, 2011, the Monterey County District Attorney charged the Former Director with two felony counts of conflict of interest relating to the Project, as well as additional felony and misdemeanor counts for other activities.)

On July 7, 2011, MCWRA advised MCWD and CAWC that the Agreements were void as a result of the conduct of the Former Director. Subsequently, on August 12, 2011, CAWC advised MCWD and MCWRA that they have defaulted in performance of certain financing obligations under the Water Purchase Agreement. By letter delivered to MCWD and MCWRA on September 28, 2011, CAWC terminated the Agreements, based on MCWRA’s repudiation of the Agreements. In other communications among the parties, each of MCWD and MCWRA have stated that it complied with the financing obligations, and MCWD further responded that, among other things, CAWC did not comply on a timely basis with an obligation under the Water Purchase Agreement that CAWC provide a letter of credit. MCWD also asserted that the Agreements remain in effect. On January 17, 2012, following unsuccessful mediation efforts among the parties, CAWC publicly announced that it had withdrawn support of the Project.

Disputes among the parties with respect to the Project continued thereafter. In public filings before the CPUC, MCWD asserted, among other things, that the CPUC should require CAWC to reimburse MCWD for all costs expended by MCWD in connection with the Project. MCWRA asserted that it was entitled to reimbursement of all costs or expenses relating to the Project, including enumerated expenses under the W PA. Each of MCWD and MCWRA also claimed entitlement to forgiveness of the indebtedness to CAWC that it incurred in connection with the Project. In response, CAWC challenged MCWD's claim that it is entitled to reimbursement for certain purported litigation expenses, and has stated generally that, in light of the failure of MCWD and MCWRA to fulfill their contractual obligations under the Water Purchase Agreement, their entitlement to reimbursement is unclear. On July 12, 2012, the CPUC closed the proceedings relating to the Project and stated that it would examine the recoverability of costs related to the Project in other proceedings. CAWC plans to file a new application seeking recovery of legal costs relating to the Project after any pending legal disputes are resolved.

On September 17, 2012, CAWC and MCWRA entered into a Tolling and Standstill Agreement whereby each party agreed to toll the statute of limitations on any claims either party may have against the other with respect to the Project and agreed not to commence litigation against the other while the agreement is in effect. In December 2012, CAWC, MCWRA, and the County of Monterey entered into a settlement agreement under which CAWC will forgive approximately $1.9 million previously loaned by CAWC to MCWRA in connection with the Project, and CAWC will make additional payments of up to approximately $1.5 million to MCWRA (approximately half of which will be paid directly to MCWRA; the remaining amount will be placed in an escrow account to pay claims of consultants and contractors against MCWRA relating to the Project). The settlement agreement, the debt forgiveness and the additional payments are conditioned on CPUC approval, including approval of CAWC rate recovery of the debt forgiveness and the additional payments. The settlement agreement does not affect a civil proceeding filed by CAWC for declaratory relief relating to the validity of the Agreements, which is described below. On May 24, 2013, CAWC filed an application with the CPUC for approval of the settlement agreement and rate recovery on CAWC's debt forgiveness and additional payments to MCWRA under the settlement agreement. The application is pending.

CAWC sought to enter into an agreement with MCWD whereby each party would agree to toll the statute of limitations on any claims either party may have against the other with respect to the Project and agree not to commence litigation against the other, but MCWD initially refused to do so. Therefore, on September 18, 2012, CAWC filed a formal claim with the MCWD Board seeking monetary damages against MCWD. In its claim, CAWC alleges that the Project was terminated due to, among other things, MCWD's breach of one of the Agreements by failing to use its best efforts to obtain project financing, that MCWD has failed to repay approximately $6 million loaned by CAWC to MCWD in connection with the Project, and that CAWC made substantial expenditures in connection with the Project, which it is entitled to recover from MCWD. CAWC has claimed damages potentially in excess of $20 million. On November 2, 2012, MCWD provided notice that the Board of MCWD rejected CAWC's claims for damages. CAWC had six months from such date to file a court action on this claim, but prior to the expiration of the six month period, CAWC and MCWD entered into a tolling agreement, which, as extended by subsequent agreement, toll applicable statutes of limitations and the deadline for commencement of litigation regarding CAWC's claims until March 1, 2014.

On October 4, 2012, CAWC filed a Complaint for Declaratory Relief in the Monterey County Superior Court against MCWRA and MCWD, seeking a determination by the Court as to whether the Agreements are void as a result of the Former Director's alleged conflict of interest, or remained valid. On November 21, 2012, MCWD filed an Answer to CAWC's Complaint, a Motion to Change Venue, and a Cross-Complaint for Declaratory Relief. MCWD's cross-complaint seeks a judicial declaration that any challenge to the validity of the Agreements are time-barred or barred by the California Public Utilities Code. MCWRA filed its Answer to CAWC's cross-complaint on December 7, 2012, alleging, among other things, that this action must be stayed pending conclusion of the criminal proceeding relating to the alleged conflict of interest by the Former Director. After CAWC indicated that it did not object to a change of venue, the Monterey County Superior Court approved MCWD's motion to transfer the case to San Francisco County Superior Court, and the transfer was accepted by the San Francisco County Superior Court on January 30, 2013. On October 9, 2013, MCWD filed a Motion for Summary Judgment and Summary Adjudication, seeking a determination that the Agreements are valid. In its motion, MCWD asserts that the Court does not have jurisdiction to determine the validity of the agreements on the basis that the agreements were approved by final decisions of the CPUC, and under the California Public Utilities Code, superior courts are prohibited from exercising jurisdiction to decide matters that would interfere with the CPUC's policies or performance of its duties. MCWD also argued that the action was barred by 60-day statutes of limitations applicable to certain contracts entered into by the MCWD and to certain contracts entered into by the MCWRA. CAWC filed responsive pleadings challenging the motion. On February 21,2014, the Court conducted a hearing on the motion, and ordered the parties to submit additional briefs by February 21, 2014. Subject to the Court's decision on the motion, a trial has been scheduled to commence on March 24, 2014.

On April 23, 2012, CAWC filed an application with the CPUC for approval of the Monterey Peninsula Water Supply Project (the "New Project"). The New Project involves construction of a desalination plant and related facilities, all to be owned by CAWC. In addition, the New Project may encompass CAWC's purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project (the "GWR Project"), a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District ("MPWMD"). The New Project also would involve aquifer storage and recovery through an already established aquifer storage and recovery program between CAWC and the MPWMD. CAWC stated in the application that it anticipates, based on discussions with the Water Resources Control Board, that it is eligible for a State Revolving Fund Loan for the New Project. The application also seeks CPUC approval of ratemaking mechanisms designed to enable CAWC to recover its costs related to construction and operation of the New Project, including funding for principal and interest on the State Revolving Fund Loan.

On July 31, 2013, CAWC entered into a settlement agreement with 15 other parties that have intervened in the CPUC proceedings with respect to the New Project, including several Monterey County government entities, the Division of Ratepayer Advocates of the CPUC and several interest groups. Under the settlement agreement, the parties have agreed on several matters relating to the New Project, including, among other things, the following: cost caps for the desalination plant and certain pipeline facilities to be constructed by CAWC aggregating $295.7 million to $338.4 million, depending on the size of the desalination plant ultimately approved by the CPUC; the process for recovery of project costs, including cost recovery for capital (CAWC agreed to maintain a fixed equity investment in the New Project equal to approximately 27% of total costs related to the desalination plant and certain other facilities to be constructed by CAWC), and operation and maintenance costs; procedures by which CAWC may seek recovery for reasonable and prudent costs above the caps; recommended criteria the CPUC should use to determine whether CAWC should build a smaller desalination plant to accommodate CAWC's purchase of water from the GWR Project; the development of a hydrogeologic study work plan to determine the extent, if any, to which the proposed New Project may adversely affect the Salinas River Groundwater Basin and the water supply; contingency measures if the initially proposed intake wells, brine discharge mechanisms and plant location are infeasible; and financing mechanisms for the New Project. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to CAWC, and, if the GWR Project supplies water to CAWC, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water.

The settlement agreements are subject to the approval of the CPUC and will not take effect unless the CPUC determines they are reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed New Project, which currently is expected to be issued in the first quarter of 2015.

Moreover, CAWC's ability to move forward on the New Project is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the settlement agreements. In addition, there have been delays in the initial timetable for preparation of the environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. As a result, CAWC estimates that the earliest date by which the New Project could be completed is mid- to late 2018. We cannot assure that CAWC's application for the New Project will be approved or that the New Project will be completed on a timely basis, if ever.

Because the projected completion date of the New Project is beyond the December 31, 2016 deadline for CAWC to terminate unpermitted diversions from the Carmel River, CAWC has commenced discussions with the Water Resources Control Board and other government representatives to extend the December 2016 deadline. While CAWC believes the discussions have been constructive, we cannot assume that the deadline will be extended.

Water Treatment Residuals Disposal Matters

CAWC operates six water treatment plants in California that remove excess arsenic from raw water in order to achieve compliance with applicable drinking water standards. The water treatment plants are located in Monterey (Ambler, Ryan Ranch, Toro), Sacramento (Isleton, Walnut Grove) and Sonoma (Larkfield) Counties. The removal process generates a waste stream ("residuals") that contains, among other things, low levels of the arsenic removed from the raw water. If arsenic levels in solid waste exceed certain specified concentrations, the waste should be characterized as "hazardous." Under the California Hazardous Waste Control Act ("HWCA"), hazardous waste is subject to different transportation and disposal requirements than non-hazardous waste. For purposes of classifying a waste as hazardous, California uses a threshold for arsenic that is significantly lower than the threshold specified by the United States Environmental Protection Agency. In April 2013, the Monterey County Health Department, Environmental Health Department ("MCHD") notified CAWC that the MCHD received a complaint filed with the California Department of Toxic Substance Control regarding arsenic levels and disposal locations of sludge generated from CAWC's Ambler Park and Toro water treatment plants prior to May 2013. MCHD requested that CAWC provide MCHD with sludge disposal records, analytical results and supporting documentation related to this matter. CAWC submitted the requested information to MCHD and advised MCHD that, based on the analysis performed, it appears that some of the residual wastes from the Ambler Park and Toro plants, as well as a third plant (Ryan Ranch), may have exceeded California hazardous waste soluble threshold limit concentration requirements and should therefore have not been disposed of at the non-hazardous waste disposal facilities to which they were transported. CAWC further advised MCHD that, in light of the findings, CAWC modified its procedures to insure that wastes transported for disposal are properly characterized and managed. CAWC similarly determined and self-reported to the Sacramento County Environmental Management Department ("SCEMD") that it may have improperly disposed of arsenic residuals from its Isleton treatment plant before July 2013.

By letter dated November 6, 2013, the Monterey County District Attorney advised CAWC that it had received a report from the MCHD that CAWC had transported and disposed such hazardous wastes in violation of applicable provisions of the California Health and Safety Code and the California Business and Professions Code. Violators of the Health and Safety Code and the Business and Professions Code are subject to liabilities of $25,000 per violation and $2,500 per violation, respectively. On November 20, 2013, CAWC met with the District Attorney to discuss the matter. The District Attorney has not indicated whether enforcement action will be taken. Similarly, CAWC continues to discuss the matter related to the Isleton treatment palnt with the SCEMD, which also has not indicated whether enforcement action will be taken. The Company is unable to predict the outcome of this matter.

West Virginia Elk River Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglocol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection ("DEP"), (Freedom Industries first notified DEP on January 21, 2014 that PPH was also leaked), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order to approximately 300,000 people in parts of nine West Virginia counties. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention ("CDC") and U.S. Environmental Protection Agency indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals are at non-detectable levels remained in place. In addition, based on re-analysis of previously saved samples, PPH was no longer detected at any sampling locations as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM are below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC is continuing sampling and testing in an effort to pinpoint its flushing activities and address odor issues.

To date, an aggregate of 50 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia, and West Virginia Circuit Courts in Kanawha, Boone, and Putman counties. Many of these lawsuits also name Freedom Industries (which is now in bankruptcy), and a few also name the Company or other Company affiliates. The plaintiffs include local businesses, individuals and a Putnam County municipality. The complaints generally seek class action status; raise claims based on a variety of tort, statutory and contract theories; and seek a combination of compensatory damages, punitive damages, medical monitoring, and other equitable relief. Frequently cited causes of action include negligence, nuisance, trespass, strict liability, and violation of the West Virginia Consumer Credit and Protection Act. Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney's Office for the Southern District of West Virginia, the West Virginia Attorney General, and other governmental entities.

The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since April 23, 2008, our common stock has traded on the NYSE under the symbol "AWK." As of February 20, 2014, there were 178,722,663 shares of common stock outstanding and approximately 1,800 record holders of common stock.

The following table sets forth the per-share range of the high and low closing sales prices of our common stock as reported on the NYSE and the cash dividends paid and declared per share for the years ended December 31, 2013 and 2012.

	2013					**2012**				
	First Quarter*	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
Dividends paid per common share	$ 0.00	$ 0.28	$ 0.28	$ 0.28	$ 0.84	$ 0.23	$ 0.23	$ 0.25	$ 0.50	$ 1.21
Dividend declared per common share	$ 0.00	$ 0.28	$ 0.56	$ 0.28	$ 1.12	$ 0.23	$ 0.25	$ 0.25	$ 0.25	$ 0.98
Price range of common stock										
—High	$41.44	$42.74	$43.50	$43.49	$43.50	$34.47	$34.95	$38.35	$38.17	$38.35
—Low	$37.33	$39.40	$39.90	$39.13	$37.33	$31.38	$33.01	$34.67	$36.20	$31.38

* The dividend that would have normally been paid in the first quarter of 2013 was paid on December 28, 2012 to allow shareholders to take advantage of the existing 2012 tax rates.

For information on securities authorized for issuance under our equity compensation see Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of operations data:					
Operating revenues	$2,901,858	$2,876,889	$2,666,236	$2,555,035	$2,290,446
Goodwill impairment charges	—	—	—	—	$ 428,036
Operating income (loss)	$ 945,849	$ 924,973	$ 803,136	$ 728,122	$ 183,835
Income (loss) from continuing operations	$ 369,264	$ 374,250	$ 304,929	$ 255,072	$ (219,998)
Income (loss) from continuing operations per basic common share (1)	$ 2.08	$ 2.12	$ 1.74	$ 1.46	$ (1.31)
Income (loss) from continuing operations per diluted common share (1)	$ 2.06	$ 2.11	$ 1.73	$ 1.46	$ (1.31)

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Cash and cash equivalents	$ 26,964	$ 24,433	$ 14,207	$ 13,112	$ 22,256
Utility plant and property, net of depreciation	$12,244,359	$11,584,944	$10,872,042	$10,241,342	$ 9,708,885
Total assets	$15,069,533	$14,718,976	$14,776,391	$14,086,246	$13,459,368
Short-term and long-term debt	$ 5,855,712	$ 5,574,763	$ 5,882,956	$ 5,658,473	$ 5,434,463
Redeemable preferred stock	$ 18,827	$ 20,511	$ 22,036	$ 22,794	$ 23,011
Total debt and redeemable preferred stock	$ 5,874,539	$ 5,595,274	$ 5,904,992	$ 5,681,267	$ 5,457,474
Common stockholders' equity	$ 4,727,804	$ 4,443,268	$ 4,235,837	$ 4,127,725	$ 4,000,859
Preferred Stock without mandatory redemption requirements	—	$ 1,720	$ 4,547	$ 4,547	$ 4,557
Total stockholders' equity	$ 4,727,804	$ 4,444,988	$ 4,240,384	$ 4,132,272	$ 4,005,416

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Other data:					
Cash flows provided by (used in):					
Operating activities	$ 896,162	$ 955,598	$ 808,357	$ 774,933	$ 596,156
Investing activities (2)	$(1,053,294)	$(382,356)	$(912,397)	$(746,743)	$(703,611)
Financing activities (2)	$ 159,663	$(563,016)	$ 105,135	$ (37,334)	$ 120,169
Construction expenditures, included in investing activities	$ (980,252)	$(928,574)	$(924,858)	$(765,636)	$(785,265)
Dividends paid per common share (3)	$ 0.84	$ 1.21	$ 0.90	$ 0.86	$ 0.82
Dividends declared per common share (4)	$ 1.12	$ 0.98	$ 1.13	$ 0.86	$ 0.82

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(1) For the year ended December 31, 2009, there are no dilutive incremental common shares included in diluted earnings per share as all potentially dilutive instruments would be anti-dilutive.

(2) The amount for the year ended December 31, 2012 includes net proceeds from the sale of our Arizona, New Mexico and Ohio subsidiaries of approximately $561 million, with the majority of it used to pay down short-term debt. For further information, see "Item 7—Management Discussion and Analysis—Consolidated Results of Operations."

(3) 2012 includes one additional dividend payment of $0.25 per common share paid on December 28, 2012 to all shareholders of record as of December 20, 2012 to allow them to take advantage of the existing 2012 tax rates.

(4) Included in 2011 was a change in the timing of dividend declarations. As a result, five dividend declarations were made during 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the financial statements and the notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-K should be read as applying to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors" and elsewhere in this Form 10-K. You should read "Risk Factors" and "Forward-Looking Statements."

Executive Overview

General

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our approximately 6,600 employees provide drinking water, wastewater and other water related services to an estimated 14 million people in more than 40 states and in two Canadian provinces. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses provide services in 16 states and serve approximately 3.2 million customers based on the number of active service connections to our water and wastewater networks. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment. As noted under "Business Section," our financial condition and results of operations are influenced by a variety of industry-wide factors, including but not limited to (i) economic utility regulation; (ii) economic environment; (iii) the need for infrastructure investment; (iv) an overall trend of declining water usage per customer; (v) weather and seasonality; and (vi) access to and quality of water supply.

In 2013, we continued the execution of our strategic goals. Our commitment to operational excellence led to continued improvement in our regulated operating efficiency, improved performance of our Market-Based Operations, and enabled us to provide increased value to our customers and investors. During the year, we focused on addressing regulatory lag, made more efficient use of capital and improved our regulated operation and maintenance ("O&M") efficiency ratio. Also, in 2013, we expanded both our Regulated Businesses and Market-Based Operations.

2013 Financial Results

For the year ended December 31, 2013, we continued to increase our net income, while continuing to make significant capital investment in our infrastructure and implementing operational efficiency improvements necessary to offset increases in depreciation and general taxes. Aided by rate increases, lower O&M and despite the unfavorable weather conditions in the second and third quarters of 2013, we generated $2,901.9 million in total operating revenue, and $369.3 million in net income, or diluted earnings per share ("EPS") of $2.06 compared to total operating revenue of $2,876.9 million, and $358.1 million in net income in 2012, or diluted EPS of $2.01. Net income from continuing operations was $369.3 million for the year ended December 31, 2013 compared to net income from continuing operations of $374.3 million for the year ended December 31, 2012. Net income and net income from continuing operations for 2013 included an after-tax charge of $24.8 million, or diluted EPS of $0.14 that was recorded in the fourth quarter to effect a tender offer that we announced in September of 2013. Diluted earnings from continuing operations per average common share was $2.06 for the year ended December 31, 2013 as compared to $2.11 for year ended December 31, 2012.

See “Consolidated Results of Operations and Variances” and “Segment Results” below for further detailed discussion of the consolidated results of operations, as well as our business segments. Also, note that all financial information in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) reflects only continuing operations. In 2011, as part of our portfolio optimization initiative, we entered into agreements to sell our regulated subsidiaries in Arizona, New Mexico, Ohio and our regulated water and wastewater systems in Texas. The sale of our Texas subsidiary’s assets was completed in June 2011, while the sales of our regulated subsidiaries in Arizona, New Mexico and Ohio were completed during 2012. Additionally, on December 13, 2011, we completed the sale of Applied Water Management, Inc. which was part of our Contract Operations line of business within our Market-Based segment. Therefore, the financial results of all of these entities have been presented as discontinued operations for all periods, unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

Addressing Regulatory Lag

In 2013, we received authorizations for additional annualized revenues from general rate cases, totaling $ 41.4 million. During 2013, rate cases were approved for our Kentucky, West Virginia and Pennsylvania subsidiaries. Also, in 2013, we were granted $36.1 million in additional annualized revenues, assuming constant sales volume, from infrastructure charges in several of our states.

On April 30, 2013, we filed a general rate case in our Iowa subsidiary requesting additional annualized revenues of $6.4 million. On May 10, 2013, interim rates of $2.7 million in annualized revenues were approved and put into effect as interim rates under bond and subject to refund. On February 4, 2014, the Iowa Utilities Board (IUB) held a verbal decision meeting that would allow our Iowa subsidiary a permanent annual base rate increase of $3.9 million. The rate change would not become the final and binding decision of the IUB until its written decision is issued on or before February 28, 2014. The IUB does have the discretion to alter or reverse its position on the verbal decision in the final written order thus the permanent annual base rate increase of $3.9 million may be adjusted. If the verbal IUB decision is confirmed by final written order after taking into account the interim increase of $2.7 million such an award would result in an additional $1.2 million over revenue generated by interim rates.

On January 24, 2014, we filed a general rate case in Indiana requesting additional annualized revenues of $19.6 million. The rate case filing is using a fully forecasted test year for the first time.

On January 1, 2014, additional annualized revenues of $0.9 million, $10.1 million and $2.1 million resulting from infrastructure charges in our New York, New Jersey and Illinois subsidiaries became effective. On January 17, 2014 and January 31, 2013 we filed for additional annualized revenue of $0.7 million and $0.2 million, respectively, from infrastructure charges in our New York subsidiary. On February 25, 2014 our Missouri subsidiary filed for additional revenues from infrastructure charges in the amount of $3.1 million.

Other regulatory activities occurring in 2013 that allow us to address regulatory lag include our Tennessee subsidiary which on October 4, 2013 filed for approval of a Qualified Infrastructure Investment Program Rider, an Economic Development Investment Rider and a Safety and Environmental Compliance Rider totaling $0.5 million. Our Tennessee subsidiary is also filing for approval of a Production Costs and Other Pass-Throughs mechanism which cover over or under collection of authorized expenses for purchased power, chemicals, waste disposal, purchased water including wheeling charges, and the Tennessee Regulatory Authority inspection fee. This petition is pending regulatory approval. Our Missouri subsidiary proposed a rule addressing an Environmental Cost Adjustment Mechanism to pass through expenses and capital costs of mandated environmental compliance measures by a utility. The rulemaking was unanimously approved by the Public Service Commission on April 4, 2013. It was adopted on January 3, 2014 and will become effective 30 days after publication in the Code of State Regulations.

As of February 25, 2014, we are awaiting final orders in three states requesting additional annualized revenue of approximately $58.4 million.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our O&M efficiency ratio during 2013. Our O&M efficiency ratio was 38.7% for the year ended December 31, 2013 compared to 40.1% and 42.4% for the years ended December 31, 2012 and 2011, respectively. Our O&M efficiency ratio (a non-GAAP measure) is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also exclude from the O&M expense the allocable portion of non-O&M support services cost, mainly depreciation and general taxes, that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other lines in the Statement of Operations. Management believes that this calculation better reflects the Regulated Businesses segment's O&M efficiency ratio. We evaluate our operating performance using this measure, as it is the primary measure of the efficiency of our regulated operations. This information is intended to enhance an investor's overall understanding of our operating performance. O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies' operating measures or deemed more useful than the GAAP information provided elsewhere in this report. The following table provides a reconciliation between operation and maintenance expense and operating revenues, as determined in accordance with GAAP, and to those amounts utilized in the calculation of our O&M efficiency ratio for the years ended December 31, 2013, 2012 and 2011:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure)

	For the Years Ended December 31,		
	2013	**2012**	**2011**
		(In thousands)	
Total O&M expense	$1,312,724	$1,350,040	$1,301,794
Less:			
O&M expense—Market-Based Operations	264,253	276,809	278,375
O&M expense—Other	(56,973)	(56,755)	(69,192)
Total Regulated O&M expense	1,105,444	1,129,986	1,092,611
Less:			
Regulated purchased water expense	111,119	110,173	99,008
Allocation of internal O&M costs	34,635	35,067	30,590
Adjusted Regulated O&M expense (a)	$ 959,690	$ 984,746	$ 963,013
Total Operating Revenues	$2,901,858	$2,876,889	$2,666,236
Less:			
Operating revenues—Market-Based Operations	325,463	330,329	327,815
Operating revenues—Other	(17,523)	(17,874)	(30,470)
Total Regulated operating revenues	2,593,918	2,564,434	2,368,891
Less: Regulated purchased water expense*	111,119	110,173	99,008
Adjusted Regulated operating revenues (b)	$2,482,799	$2,454,261	$2,269,883
Regulated O&M efficiency ratio (a)/(b)	38.7%	40.1%	42.4%

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* Note calculation assumes purchased water revenues approximate purchased water expenses.

Making Efficient Use of Capital

We invested approximately $950 million and $983 million in Company-funded capital improvements in 2013 and 2012, respectively. These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth and ensure system reliability, security and quality of service. The need for continuous investment presents a challenge due to the potential for regulatory lag, or the delay in recovering our operating expenses and earning an appropriate rate of return on our invested capital and obtaining a return of our invested capital. In conjunction with our capital investment program, management continued its focus on reducing regulatory lag during 2013.

In May 2013, we implemented the first wave of Phase II of our business transformation project in certain of our regulated subsidiaries. In October 2013, we implemented Phase II in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which will manage an asset's lifecycle, and a Customer Information System, which will contain all billing and data pertaining to American Water's customers for our Regulated segment. With the final implementation of Phase II in October 2013, our business transformation project was substantially complete at December 31, 2013. Through December 31, 2013, we have spent $322.8 million, including AFUDC, on this business transformation project with $65.8 million of that amount spent in 2013.

Expanding Markets and Developing New Offerings

During 2013, our Regulated Business completed the purchase of ten water systems and five wastewater systems. These acquisitions added approximately 30,0 00 customers to our regulated operations. The largest of these acquisitions was the acquisition of Dale Service Corporation ("Dale") by our Virginia subsidiary on November 14, 2013. The service area of Dale overlapped with Virginia American Water's existing water service in Prince William County. With the Dale acquisition, we added approximately 20,100 wastewater customers to our existing customer base. Also, during 2013, our Market-Based Operations, through our Homeowner Services Group ("HOS") expanded its water and sewer line protection programs into 10 additional states and Washington, D.C.

In January, 2014, our Military Services Group, part of our Contract Operations Group within the Market-Based Operations was awarded a contract for ownership, operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. According to the agreement the award is estimated at approximately $288 million over a 50-year period. We have begun the transition of the facility, which will be fully transitioned to us by September 1, 2014, when we will commence our operations of the facility under the contract. Also, in January 2014, HOS announced that it has expanded its water line and sewer line protection programs into three additional states, Maine, Minnesota and Oklahoma.

Other matters

West Virginia Event

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant in Charleston, West Virginia. After having been alerted to the leak by the DEP, WVAWC took immediate steps to gather more information about the chemical, augment its treatment as a precaution, and begin consultations with federal, state, and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the chemical, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order to approximately 300,000 people in parts of nine West Virginia counties. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention (CDC) and U.S. Environmental Protection Agency indicated would be protective of public health. Based on the results of continued testing, the Do Not Use order was lifted in stages, beginning on January 13, 2014. By January 18th, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals are at non-detectable levels remained in place. In addition, based on re-analysis of previously saved samples, PPH was no longer detected at any sampling locations as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM are below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC is continuing sampling and testing in an effort to pinpoint its flushing activities and address odor issues.

To date, an aggregate of 50 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia, and West Virginia Circuit Courts in Kanawha, Boone, and Putman counties, many of which also name Freedom Industries (which is now in bankruptcy) and a few also name the Company or other Company affiliates. The complaints generally seek class action status; raise claims based on a variety of tort, statutory and contract theories; and seek a combination of compensatory damages, punitive damages, medical monitoring, and other equitable relief. Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney's Office for the Southern District of West Virginia, the West Virginia Attorney General, and other governmental entities.

The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, the WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

National Benefits Agreement

In September 2010, we declared "impasse" in negotiations of our national benefits agreement with most of the labor unions representing employees in our Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. We implemented our "last, best and final" offer on January 1, 2011 in order to provide health care coverage for our employees in accordance with the terms of the offer. The unions have challenged our right to implement our last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the NLRB issued a complaint against us in January 2012, claiming that we implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor. We have asserted that we did, in fact, provide sufficient notice.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although we did provide sufficient notification to the Federal Mediation and Conciliation Service, we did not provide notice to state agencies, in violation of the National Labor Relations Act. The Administrative Law Judge ordered, among other things, that we cease and desist from implementing the terms of our last, best and final offer and make whole all affected employees for losses suffered as a result of our implementation of our last, best and final offer. The "make whole" order, if upheld on appeal, would require us to provide back-pay plus interest, from January 1, 2011 through the date of the final determination by the NLRB. Based on current estimates and assumptions, we estimate the cash impact could be in the range of $3.5 to $4.5 million per year, with the total impact dependent on the length of time the issue remains unresolved. On November 2012, we filed an exception to the decision of the Administrative Law Judge in order to obtain a review by the full NLRB. We expect to hear from the NLRB during 2014.

2014 and Beyond

Our strategy for the future will continue to focus on customer satisfaction and service , expansion through targeted growth, environmental sustainability, and constructive regulatory and public policy. We will also continue to modernize our infrastructure and to focus on operational efficiencies, while bolstering a culture of continuous improvement.

For 2014 and beyond, we expect our earnings growth drivers to be 1) our Regulated Business investment; 2) growth from acquisitions; 3) growth in Market-Based businesses; and lastly 4) potential growth opportunities in serving the shale industry. Also, in 2014, we anticipate savings from corporate expense reductions attributable to lower SAP-related implementation costs, lower pension costs, further reduced headcount and lower interest expense resulting from our 2013 debt refinancings.

In 2014, we will continue to concentrate on our customers by achieving established customer satisfaction and service quality targets. In regards to environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage. Specific goals established for 2014 are to:

1) Optimize capital spend
2) Continue to promote constructive regulatory frameworks
3) Improve our O&M efficiency ratio
4) Execute our regulated acquisition strategy; and
5) Continue to grow our Market-Based Operations.

We will optimize our capital spend by not only focusing on how much we spend but the efficiency with which we spend it. We estimate our capital expenditure plan for 2014 through 2018 will be approximately $5.8 billion. Of the $5.8 billion, $5.1 million is expected to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period for acquisitions and strategic capital of approximately $400 million and $300 million, respectively. Strategic investments could include opportunities in the unregulated shale arena or a major concession. Our total capital plan for 2014 is estimated to be approximately $1.1 billion with approximately $900 million allocated to upgrading our infrastructure and systems, $100 million for acquisitions and $100 million for strategic investment purposes.

We will engage in appropriate legislative and regulatory policy changes by actively addressing regulatory lag that impacts return on our investments and promoting constructive regulatory frameworks. We expect to resolve three rate proceedings during 2014 and plan to file up to five general rate cases, including one which was already filed in January 2014. Additionally, we will file for infrastructure surcharges and continue to pursue other mechanisms, either as part of our general rate case filings or in separate filings, which will provide opportunities to expedite the return of capital outside of the general rate case and continue to close the gap between our allowed and our earned regulated return.

We also expect to continue to improve our regulated O&M efficiency ratio. We expect to achieve an O&M efficiency ratio equal to or below 35% by 2018. A significant component in both the optimization of capital spend and O&M efficiency objectives is to optimize our supply chain process to provide more value for each dollar of capital and O&M spent.

Lastly, we will look to execute our regulated acquisition strategy and continue to grow our Market-Based Operations, in particular HOS and our military services contracts, while evaluating potential opportunities to assist the shale industry in the delivery of water to assist with their processes. We will expand our Regulated Business segment through focused acquisitions and/or organic growth, while expanding in our Market-Based segment from new core growth, expanded markets and new offerings. In regards to our Market-Based Operations, as noted above, in early January 2014, we added the Hill Air Force Base to our military contracts and have expanded our HOS service line protection programs into three additional states. We are committed to operating our business responsibly and managing our operating and capital costs in a manner that serves our customers and produces value for our shareholders. We are committed to an ongoing strategy that leverages processes and technology innovation to make ourselves more effective and efficient.

Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the years ended December 31, 2013, 2012 and 2011:

	Years ended December 31, 2013	2012	2011
Operating revenues	$2,901,858	$2,876,889	$2,666,236
Operating expenses			
Operation and maintenance	1,312,724	1,350,040	1,301,794
Depreciation and amortization	407,718	381,503	351,821
General taxes	234,642	221,212	210,478
(Gain) loss on asset dispositions and purchases	925	(839)	(993)
Total operating expenses, net	1,956,009	1,951,916	1,863,100
Operating income	945,849	924,973	803,136
Other income (expenses)			
Interest, net	(308,164)	(310,794)	(312,415)
Loss on extinguishment of debt	(40,583)	—	—
Allowance for other funds used during construction	12,639	15,592	13,131
Allowance for borrowed funds used during construction	6,377	7,771	5,923
Amortization of debt expense	(6,603)	(5,358)	(5,055)
Other, net	(4,045)	(926)	(1,040)
Total other income (expenses)	(340,379)	(293,715)	(299,456)
Income from continuing operations before income taxes	605,470	631,258	503,680
Provision for income taxes	236,206	257,008	198,751
Income from continuing operations	369,264	374,250	304,929
Income (loss) from discontinued operations	—	(16,180)	4,684
Net income	$ 369,264	$ 358,070	$ 309,613
Basic earnings per share (a)			
Income from continuing operations	$ 2.08	$ 2.12	$ 1.74
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.08	$ 2.03	$ 1.76
Diluted earnings per share (a)			
Income from continuing operations	$ 2.06	$ 2.11	$ 1.73
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.06	$ 2.01	$ 1.75
Average common shares outstanding during the period			
Basic	177,814	176,445	175,484
Diluted	179,056	177,671	176,531
Dividends per common share	$ 1.12	$ 0.98	$ 1.13

(a) Amounts may not sum due to rounding.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Consolidated operating revenues for the year ended December 31, 2013 increased $ 25.0 million, or 0.9%, compared to the same period in 2012. This increase is the result of higher revenues in our Regulated Businesses of $29.5 million, which was mainly attributable to rate increases partially offset by decreased consumption, primarily related to weather. For further information see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2013 decreased $37.3 million, or 2.8%, compared to 2012. This change was mainly attributable to a $24.5 million decrease in our Regulated Businesses' costs primarily related to a decrease in employee-related costs, primarily pension and group insurance expense as well as lower preventive maintenance expenses. For further information see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $26.2 million, or 6.9%, for the year ended December 31, 2013 compared to the same period in the prior year as a result of additional utility plant placed in service including our business transformation project, which accounted for $10.8 million of the incremental expense in 2013.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by $ 13.4 million, or 6.1%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. This increase was principally due to incremental taxes in the first half of 2013 associated with the properties acquired in our New York acquisition in the second quarter of 2012. Also, 2012 property taxes were lower due to the recognition of credit adjustments in Indiana and Missouri which reduced property tax expense in the third quarter of 2012. Lastly, gross receipts taxes were higher in our New Jersey subsidiary by $3.5 million.

Other income (expenses). Other expenses increased $46.7 million, or 15.9%, for the year ended December 31, 2013 compared to the same period in the prior year. This increase is principally attributable to the recognition of a pre-tax loss on debt extinguishment of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. The loss consisted of a repurchase premium of $39.4 million, transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. Also contributing to the increase was a reduction in allowance for funds used during construction ("AFUDC") of $4.3 million resulting from decreased construction activities, compared to the same period in 2012, including the winding down of our business transformation project.

Provision for income taxes. Our consolidated provision for income taxes decreased $20.8 million, or 8.1%, to $236.2 million for the year ended December 31, 2013. The effective tax rates for the years ended December 31, 2013 and 2012 were 39.0% and 40.7%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Income (loss) from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2012 and 2011

Operating revenues. Consolidated operating revenues for the year ended December 31, 2012 increased $210.7 million, or 7.9%, compared to the same period in 2011. This increase is the result of higher revenues in our Regulated Businesses of $195.5 million, which was mainly attributable to rate increases and increased sales volumes, primarily related to weather. For further information see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2012 increased $48.2 million, or 3.7%, compared to 2011. This change was mainly attributable to a $37.4 million increase in our Regulated Businesses costs primarily related to an increase in production costs of approximately $12.2 million to support higher customer demand as well as incremental contracted services costs attributable to various projects in support of improving processes and operating efficiency and effectiveness, including the support of the go-live of our Enterprise Resource Planning system, and the use of temporary labor to backfill positions, including those positions vacated by employees assigned to our business transformation project. Also, contributing to the increase was a $7.0 million contribution made in 2012 to the American Water Charitable Foundation, a 501(c)(3) organization. For further information see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $29.7 million, or 8.4%, for the year ended December 31, 2012 compared to the same period in the prior year as a result of additional utility plant placed in service.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by $10.7 million, or 5.1%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. This increase was principally due to higher property taxes of $7.3 million, most of which is the result of incremental taxes associated with our New York acquisition.

Other income (expenses). Other expenses decreased $5.7 million, or 1.9%, for the year ended December 31, 2012 compared to the same period in the prior year. This decrease is attributable to an increase in AFUDC of $4.3 million resulting from increased construction activity, including our business transformation project and a decrease in interest expense, net of interest income of $1.6 million.

Provision for income taxes. Our consolidated provision for income taxes increased $58.3 million, or 29.3%, to $257.0 million for the year ended December 31, 2012. The effective tax rates for the years ended December 31, 2012 and 2011 were 40.7% and 39.5%, respectively. The rate for the twelve months ended December 31, 2011 includes a $4.5 million tax benefit related to one of our operating companies contributing non-utility property to a county authority within its operating area.

Income (loss) from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries. The 2011 income amount reflects the operations for the discontinued subsidiaries and an after-tax benefit of $15.1 million related to the cessation of depreciation for our Arizona, New Mexico, and Texas subsidiaries. Under GAAP, operations that are considered discontinued cease to depreciate their assets. Partially offsetting the 2011 income from discontinued operations, net of tax amount was $25.1 million after tax write-downs recorded in 2011 to reduce the net asset values of certain of our discontinued operations.

Segment Results of Operations

We have two operating segments, which are also our reportable segments: the Regulated Businesses and the Market-Based Operations. These segments are determined based on how we assess performance and allocate resources. We evaluate the performance of our segments and allocated resources based on several factors, with the primary measure being income from continuing operations before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Operating revenues	$2,593,918	$2,564,434	$2,368,891
Operation and maintenance expense	1,105,444	1,129,986	1,092,611
Operating expenses, net	1,700,052	1,685,734	1,609,276
Income from continuing operations before income taxes	654,834	649,117	535,445

Operating Revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is subject to state regulation and our results of operations can be impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate. The table below details additional annualized revenues awarded, including step increases and assuming a constant volume, resulting from rate authorizations granted in 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	2012	2011
		(in millions)	
State			
General Rate Cases:			
Pennsylvania (1)	$26.0	$ —	$62.1
New Jersey	—	30.0	—
Kentucky (2)	6.9	—	—
Missouri	—	24.0	—
Illinois	—	17.9	—
Indiana	—	1.9	—
California (3)	3.5	32.9	—
West Virginia (4)	8.5		5.1
Virginia (5)	—	2.6	4.8
Tennessee	—	5.2	5.6
Iowa	—	2.8	—
New York (6)	—	5.6	—
Other	0.1	0.2	1.2
Total—General Rate Cases	$45.0	$123.1	$78.8

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(1) On December 19, 2013, a rate case settlement was approved with an effective date of January 1, 2014. This rate increase combined, in part, wastewater and water rates.

(2) Final order was received on October 25, 2013. The increase approximated the interim rates, net of the reserve that had been recorded since July 27, 2013.

(3) Second step increase from the 2012 rate case became effective on April 1, 2013.

(4) Final order issued on September 26, 2013 by the West Virginia Public Service Commission. New rates were put into effect October 11, 2013.

(5) The new rates provided additional annualized revenue of $2.3 million in 2012 and $4.3 million in 2011 for jurisdictional customers, and $0.3 million in 2013 and $0.5 million in 2011 for non-jurisdictional customers, which are not subject to commission approval.

(6) Amount includes a $3.0 million increase effective April 1, 2012, with the remainder of $1.4 million and $1.2 million becoming effective April 1, 2013 and April 1, 2014, respectively.

The effective dates for the more significant increases granted in 2012 were January 1, 2012, April 1, 2012, May 1, 2012 and October 1, 2012 for our California, Missouri, New Jersey, and Illinois subsidiaries, respectively. The effective date for the 2011 Pennsylvania rate increase was November 11, 2011. The 2011 increase in Virginia was effective in March 2011 while the Tennessee and West Virginia increases were effective in April 2011.

As previously noted, an increasing number of states are permitting rates to be adjusted outside of a general rate case for certain costs, such as mechanisms that permit a return on capital investments to replace aging infrastructure. The following table details additional annualized revenue authorized through infrastructure surcharge mechanisms which were granted in 2013, 2012 and 2011. As these surcharges are typically rolled into the new base rates and therefore are reset to zero when new base rates are effective, certain of these charges may also be reflected in the total general rate case amounts awarded in the table above if the order date was following the infrastructure surcharge filing date:

	Years Ended December 31,		
	2013	**2012**	**2011**
		(in millions)	
Infrastructure Charges:			
Pennsylvania (1)	$19.8	$10.5	$16.4
New Jersey (2)	4.0	—	—
Missouri (3)	7.9	4.2	5.8
Indiana (4)	3.9	3.7	—
Illinois (5)	0.5	—	3.7
Other	—	—	0.3
Total—Infrastructure Charges	$36.1	$18.4	$26.2

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(1) Quarterly filings made with PUC. $6.7 million, $3.7 million, $2.9 million and $6.5 million effective October 1, 2013, July 1, 2013, April 1, 2013 and January 1, 2013, respectively.
(2) Effective July 1, 2013.
(3) $5.4 million effective June 21, 2013 and $2.5 million effective December 14, 2013.
(4) Effective December 18, 2013.
(5) Effective October 1, 2013.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues increased by $29 .5 million, or 1.1%, for the year ended December 31, 2013 compared to the same period in 2012. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $72.4 million. Additionally revenues increased by $16.4 million due to increased surcharge and amortization of balancing accounts. Lastly, revenues were higher by $9.9 million as a result of acquisitions, with the most significant being the result of our New York acquisition in the second quarter of 2012 (additional four months of revenue in 2013 compared to 2012) and the acquisition of Dale by our Virginia subsidiary in the fourth quarter of 2013. These increases were partially offset by decreased revenues of approximately $64.5 million as a result of lower demand, principally driven by the hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler and wetter weather conditions in 2013.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2013	**2012**	**Increase (Decrease)**	**Percentage**	**2013**	**2012**	**Increase (Decrease)**	**Percentage**
	Operating Revenues (dollars in thousands)				**Billed Water Sales Volume (gallons in millions)**			
Customer Class								
Water service								
Residential	$1,465,174	$1,465,803	$ (629)	(0.0%)	180,976	188,927	(7,951)	(4.2%)
Commercial	520,875	518,253	2,622	0.5%	80,392	84,226	(3,834)	(4.6%)
Industrial	118,939	121,902	(2,963)	(2.4%)	37,107	39,429	(2,322)	(5.9%)
Public and other	211,591	212,289	(698)	(0.3%)	51,009	54,202	(3,193)	(5.9%)
Other water revenues	118,323	120,988	(2,665)	(2.2%)	—	—	—	—
Billed water services	2,434,902	2,439,235	(4,333)	(0.2%)	349,484	366,784	(17,300)	(4.7%)
Unbilled water services	30,142	4,484	25,658	572.2%				
Total water revenues	2,465,044	2,443,719	21,325	0.9%				
Wastewater revenues	82,831	78,168	4,663	6.0%				
Other revenues	46,043	42,547	3,496	8.2%				
	$2,593,918	$2,564,434	$29,484	1.1%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2013 totaled $2,465.0 million, a $21.3 million increase, or 0.9%, over the same period of 2012. However, the mix between billed revenues/billed volumes to unbilled revenues/unbilled volumes have changed significantly principally as a result of our CIS implementation. Unbilled revenue has increased $25.7 million compared to the same period in the prior year mainly as a result of delayed invoicing to customers. With the implementation, we made a decision to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As such bills that exceed certain tolerance levels are being held until verification can be performed. As such, the timing of issuance of bills has caused a decrease in billed volumes in 2013 when compared to 2012, with a corresponding increase in unbilled usage. For our residential and commercial customers, we believe that the majority of the decline in billed volumes is attributable to the weather abnormalities between 2012 and 2013 as well as the implementation of our new CIS system by our regulated subsidiaries. For the remaining customer classes, we believe the decline in billed volumes is mainly due to the delay in invoicing the customer as a result of our CIS implementation.

Wastewater services—Our subsidiaries provide wastewater services in 10 states. Revenues from these services increased by $4.7 million, or 6.0%, to $82.8 million for the year ended December 31, 2013, from the same period of 2012. The increase was primarily attributable to rate increases in our Pennsylvania subsidiary as well as the Dale acquisition in November, 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $3.5 million, or 8.2%, compared to the year ended December 31, 2012. The increase in revenues for the year ended December 31, 2013 as compared to the same period in the prior year was mainly due to the additional surcharge revenues offset by decreases in revenues related to billings for others, reconnection and late fees.

Operation and maintenance. Operation and maintenance expense decreased $24.5 million, or 2.2%, for the year ended December 31, 2013, compared to the year ended December 31, 2012. Operation and maintenance expense for 2013 and 2012, by major expense category, were as follows:

	For the Years Ended December 31,			
	2013	**2012**	**Increase (Decrease)**	**Percentage**
		(Dollars in thousands)		
Production costs	$ 271,181	$ 274,775	$ (3,594)	(1.3%)
Employee-related costs	455,690	472,075	(16,385)	(3.5%)
Operating supplies and services	215,702	210,947	4,755	2.3%
Maintenance materials and supplies	65,853	81,062	(15,209)	(18.8%)
Customer billing and accounting	52,625	49,257	3,368	6.8%
Other	44,393	41,870	2,523	6.0%
Total	$1,105,444	$1,129,986	$(24,542)	(2.2%)

Production costs including fuel and power, purchased water, chemicals and waste disposal costs decreased by $3.6 million, or 1.3%, for 2013 compared to 2012. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2013	**2012**	**Increase (Decrease)**	**Percentage**
		(Dollars in thousands)		
Purchased water	$111,119	$110,173	$ 946	0.9%
Fuel and power	86,337	89,282	(2,945)	(3.3%)
Chemicals	47,901	49,334	(1,433)	(2.9%)
Waste disposal	25,824	25,986	(162)	(0.6%)
Total	$271,181	$274,775	$(3,594)	(1.3%)

Overall, production costs de creased for the year ended December 31, 2013 compared to the prior year as a result of reduction in chemical and fuel and power costs resulting from decreased usage mainly attributable to lower consumption in most of our states.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $16.4 million, or 3.5%, for 2013 compared to 2012. These employee-related costs represented 41.2% and 41.8% of operation and maintenance expenses for 2013 and 2012, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2013	**2012**	**Increase (Decrease)**	**Percentage**
		(Dollars in thousands)		
Salaries and wages	$323,022	$326,370	$ (3,348)	(1.0%)
Pensions	48,374	56,299	(7,925)	(14.1%)
Group insurance	65,872	71,103	(5,231)	(7.4%)
Other benefits	18,422	18,303	119	0.7%
Total	$455,690	$472,075	$(16,385)	(3.5%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was mainly the result of lower employee incentive and stock compensation expense of approximately $5.9 million in addition to higher capitalization rates, due to increased capital investment, and a reduction in headcount partially offset by increased overtime and annual wage increases. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. The reduction in group insurance expense is mainly attributable to higher capitalization rates and reduced headcount.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $4.8 million, or 2.3%, for the year ended December 31, 2013 compared to the same period in 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 93,744	$ 87,675	$ 6,069	6.9%
Office supplies and services	45,272	49,354	(4,082)	(8.3%)
Transportation	20,620	22,917	(2,297)	(10.0%)
Rents	15,830	16,943	(1,113)	(6.6%)
Other	40,236	34,058	6,178	18.1%
Total	$215,702	$210,947	$ 4,755	2.3%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. These increases were mainly due to incremental costs attributable to the continued maturity of our Enterprise Resource Planning system in conjunction with the implementation of Phase I and Phase II of our business transformation project. Additionally, contracted services increased due to the use of contractors for other specific projects. Other increases in the other operating supplies and services costs are related to a $1.3 million increase in condemnation costs and a $1.2 million increase in conservation expense as well as the inclusion in 2012 of a $1.0 million reduction in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy and a $2.1 million credit adjustment resulting from the finalization of rate decisions in California and are offset by $1.6 million of insurance proceeds related to recovery of expenses related to Hurricanes Irene and Sandy received in 2013. The decrease in office supplies and services due to cost containment efforts primarily related to employee travel. Transportation costs decreased due to the reduction of leased vehicles.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, de creased $15.2 million, or 18.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance services and supplies	$65,853	$81,062	$(15,209)	(18.8%)

The de crease of $15.2 million in 2013 is mainly attributable to 2012 including increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $3.4 million, or 6.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$26,443	$22,541	$3,902	17.3%
Postage	12,757	12,694	63	0.5%
Other	13,425	14,022	(597)	(4.3%)
Total	$52,625	$49,257	$3,368	6.8%

The increase in the uncollectible accounts expense was primarily due to an increase in our Regulated Businesses' customer accounts receivable attributable to rate increases and an increase in the overall aging of receivables due to our CIS implementation.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $2.5 million, or 6.0%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$35,406	$31,883	$ 3,523	11.0%
Regulatory expenses	8,987	9,987	(1,000)	(10.0%)
Total	$44,393	$41,870	$ 2,523	6.0%

Insurance costs in 2013 were higher, compared to 2012, primarily due to higher casualty insurance costs as a result of historical claims experience and retroactive adjustments.

Operating expenses. The increase in operating expenses for the year ended December 31, 2013 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $26.3 million and higher general tax expense of $12.4 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including $10.8 million of incremental expense resulting from the assets placed in service for our business transformation project. The increase in general tax expense is primarily due to higher property taxes in our New York subsidiary due to a full year of expense in 2013 on properties acquired in the second quarter of 2012 of $5.2 million, the inclusion of property tax adjustments that reduced expense for our Indiana and Missouri subsidiaries by $4.0 million in 2012, and higher 2013 gross receipts taxes in our New Jersey subsidiary of $3.5 million.

Comparison of Results of Operations for the Years Ended December 31, 2012 and 2011

Operating revenues increased by $195.5 million, or 8.3%, for the year ended December 31, 2012 compared to the same period in 2011. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $128.7 million, and higher consumption in our mid-west and certain northeastern states in 2012 compared to 2011, which amounted to an increase of approximately $39.1 million. The increased consumption is primarily attributable to the warmer/drier weather in our mid-western and certain of our northeastern states in the second and third quarters of 2012. Lastly, revenues were higher by $26.7 million as a result of revenues from newly acquired systems, with the most significant being our New York acquisition in the second quarter of 2012.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2012	2011	Increase (Decrease)	Percentage	2012	2011	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$1,465,803	$1,338,671	$127,132	9.5%	188,927	180,916	8,011	4.4%
Commercial	518,253	473,904	44,349	9.4%	84,226	81,455	2,771	3.4%
Industrial	121,902	114,096	7,806	6.8%	39,429	39,295	134	0.3%
Public and other	212,289	206,290	5,999	2.9%	54,202	52,069	2,133	4.1%
Other water revenues	120,988	117,598	3,390	2.9%	—	—	—	—
Billed water services	2,439,235	2,250,559	188,676	8.4%	366,784	353,735	13,049	3.7%
Unbilled water services	4,484	2,030	2,454	120.9%				
Total water revenues	2,443,719	2,252,589	191,130	8.5%				
Wastewater revenues	78,168	76,301	1,867	2.4%				
Other revenues	42,547	40,001	2,546	6.4%				
	$2,564,434	$2,368,891	$195,543	8.3%				

The following discussion related to water services indicates the increase or decrease in the Regulated Businesses' revenues and associated billed water sales volumes in gallons by customer class.

Water Services—Water service operating revenues for the year ended December 31, 2012 totaled $2,443.7 million, a $191.1 million increase, or 8.5%, over the same period of 2011. Overall, the water services revenue increase is related to increases in all customer classes and is mainly due to rate increases as well as increased sales volume. The volume of water sold increased by 3.7% for the year ended December 31, 2012 to 366.8 billion gallons, from 353.7 billion gallons for the same period in 2011. We believe this higher consumption is attributable to the warmer/drier weather in our northeastern and mid-western operating states as compared to the prior year. Also contributing to the increased sales volume was the additional consumption resulting from our New York acquisition.

Wastewater services—Our subsidiaries provide wastewater services in nine states. Revenues from these services increased by $1.9 million, or 2.4%, to $78.2 million for the year ended December 31, 2012, from the same period of 2011. The increase was primarily attributable to rate increases in a number of our operating companies.

Other revenues—Other revenues include such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items. The increase in revenues for the year ended December 31, 2012 as compared to the same period in the prior year was mainly due to the receipt of insurance proceeds related to business interruption for our Joplin, Missouri service area which was affected by tornados in 2011.

Operation and maintenance. Operation and maintenance expense increased $37.4 million, or 3.4%, for the year ended December 31, 2012, compared to the year ended December 31, 2011. Operation and maintenance expense for 2012 and 2011, by major expense category, were as follows:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 274,775	$ 262,563	$ 12,212	4.7%
Employee-related costs	472,075	489,836	(17,761)	(3.6%)
Operating supplies and services	210,947	187,215	23,732	12.7%
Maintenance materials and supplies	81,062	73,109	7,953	10.9%
Customer billing and accounting	49,257	42,722	6,535	15.3%
Other	41,870	37,166	4,704	12.7%
Total	$1,129,986	$1,092,611	$ 37,375	3.4%

Production costs including fuel and power, purchased water, chemicals and waste disposal costs increased by $12.2 million, or 4.7%, for 2012 compared to 2011. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$110,173	$ 99,008	$11,165	11.3%
Fuel and power	89,282	87,879	1,403	1.6%
Chemicals	49,334	48,354	980	2.0%
Waste disposal	25,986	27,322	(1,336)	(4.9%)
Total	$274,775	$262,563	$12,212	4.7%

Overall, production costs increased for the year ended December 31, 2012 compared to the prior year mainly as a result of increased purchased water costs, attributable to increased production resulting from higher consumption in most of our subsidiaries, with more significant increases occurring in our California and Illinois subsidiaries. For 2011, our California subsidiary's customer needs were met without the need for purchased water.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $17.8 million, or 3.6%, for 2012 compared to 2011. These employee-related costs represented 41.8% and 44.8% of operation and maintenance expenses for 2012 and 2011, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$326,370	$327,777	$ (1,407)	(0.4%)
Pensions	56,299	68,885	(12,586)	(18.3%)
Group insurance	71,103	75,120	(4,017)	(5.3%)
Other benefits	18,303	18,054	249	1.4%
Total	$472,075	$489,836	$(17,761)	(3.6%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was primarily due to higher capitalization rates due to increased capital investment and a reduction in headcount as a result of organizational streamlining and vacancies, some of which have been back-filled with temporary labor and therefore included within contracted services in the operating supplies and services category below. Partially offsetting the decrease was higher costs resulting from wage increases, higher stock-based compensation expense as well as increased costs due to the addition of employees from our New York acquisition. The reduction in group insurance expense is mainly attributable to lower headcount as a result of vacancies, a decrease in the overall cost per person, as well as higher capitalization rates. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $23.7 million, or 12.7%, for the year ended December 31, 2012 compared to the same period in 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 87,675	$ 72,851	$14,824	20.3%
Office supplies and services	49,354	46,783	2,571	5.5%
Transportation	22,917	24,915	(1,998)	(8.0%)
Rents	16,943	15,619	1,324	8.5%
Other	34,058	27,047	7,011	25.9%
Total	$210,947	$187,215	$23,732	12.7%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. The contracted services increase was mainly due to incremental costs associated with the backfilling of positions, including those vacated by employees who are assigned to our business transformation project; the use of contractors for other specific projects, the intent of which is to improve processes and operating efficiency and effectiveness over the long-term; and lastly additional costs resulting from the roll-out and stabilization of our ERP in the third quarter of 2012. The increase in the other operating supplies and services costs is primarily related to the roll-out and stabilization of the ERP in addition to incremental expenses associated with our New York acquisition of $1.1 million, and an increase of $1.5 million for community relations and customer education in order to communicate the importance of water conservation. Additionally, 2011 included a reduction of $2.2 million for an anticipated insurance recovery of expenses incurred as a result of severe weather storms, in particular Hurricane Irene, which is partially offset by a reduction recorded in 2012 of $1.0 million in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy. Partially offsetting the increase in other operating supplies and services was a $2.1 million credit adjustment recorded in 2012 resulting from the finalization of rate decisions in California.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, increased $8.0 million, or 10.9%, for 2012 compared to 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance services and supplies	$81,062	$73,109	$7,953	10.9%

The increase of $8.0 million in 2012 is mainly attributable to increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $6.5 million, or 15.3%, for 2012 compared to 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$22,541	$16,074	$6,467	40.2%
Postage	12,694	12,382	312	2.5%
Other	14,022	14,266	(244)	(1.7%)
Total	$49,257	$42,722	$6,535	15.3%

The increase in the uncollectible accounts expense was mainly the result of a refinement to our allowance for uncollectible calculation based on more detailed data trends which were derived in conjunction with the development of our new Customer Information System.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $4.7 million, or 12.7%, for 2012 compared to 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$31,883	$29,733	$2,150	7.2%
Regulatory expenses	9,987	7,433	2,554	34.4%
Total	$41,870	$37,166	$4,704	12.7%

Insurance costs were higher, compared to 2011, as 2012 insurance reflected incremental expense resulting from the resolution of prior years' claims. Regulatory expenses increased in 2012 as a result of the inclusion in 2011 of a deferral of previously expensed costs in one of our subsidiaries.

Operating expenses. The increase in operating expenses for the year ended December 31, 2012 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $28.1 million, resulting from additional utility plant placed in service, and increased general taxes of $10.0 million, principally attributable to higher property taxes relating to our New York acquisition.

Market-Based Operations Segment

The following table provides certain financial information for our Market-Based Operations segment for the periods indicated:

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Operating revenues	$325,463	$330,329	$327,815
Operation and maintenance expense	264,253	276,809	278,375
Operating expenses, net	277,691	288,099	290,768
Income from continuing operations before income taxes	50,637	45,817	39,324

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Revenues decreased $4.9 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to the lower revenues of $17.3 million resulting from termination of certain municipal and industrial operations and maintenance contracts, most of which occurred in 2012. Additionally, revenues from capital project activities associated with military construction decreased $8.4 million, due to lower levels of work as compared to the prior year. These decreases were offset by a net increase of $4.0 million from price redeterminations for several of our military contracts as well as an increase of $16.6 million in our HOS revenues associated with contract growth, most notably in New York City.

Operation and maintenance. Operation and maintenance expense decreased $12.6 million, or 4.5%, for the year ended December 31, 2013, compared to the year ended December 31, 2012.

The following table provides information regarding operation and maintenance expense for the years ended December 31, 2013, and 2012, by major expense category:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 38,943	$ 42,772	$ (3,829)	(9.0%)
Employee-related costs	67,042	71,002	(3,960)	(5.6%)
Operating supplies and services	111,755	117,749	(5,994)	(5.1%)
Maintenance materials and supplies	41,775	36,730	5,045	13.7%
Other	4,738	8,556	(3,818)	(44.6%)
Total	$264,253	$276,809	$(12,556)	(4.5%)

As noted in the table above, decreases in operating supplies and services, production costs and employee-related costs were partially offset by an increase in maintenance materials and supplies. The decrease in production costs and employee-related costs is mostly due to the termination of certain municipal and industrial operations and maintenance contracts. The decrease in operating supplies and services is attributable to the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Additionally, 2013 was impacted by decreased construction activity for our military contracts and is partially offset by increased HOS contracted services expense as well as higher printing and postage costs associated with expanding into new markets, including New York City. The increase in maintenance materials and supplies is primarily due to higher HOS repair costs, which is attributable to new contracts, an increase in the number of claims, as well as the average cost per claim and is partially offset by the terminated municipal and industrial operations and maintenance contracts. The decrease in the other category is mainly due to decreases in uncollectible accounts expense of $3.5 million, which is due to 2012 including incremental amounts related to terminated contracts in addition to improved collection experience in 2013 for certain other municipal and industrial operations and maintenance contracts.

Operating expense. The decrease in operating expenses for the year ended December 31, 2013 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Income from continuing operations before income taxes. The $4.8 million increase for the year ended December 31, 2013, is the result of the aforementioned changes in operating revenues and operating and maintenance expense.

Comparison of Results of Operations for the Years Ended December 31, 2012 and 2011

Operating revenues. The increase in revenues for the year ended December 31, 2012, compared to the same period in 2011, is primarily attributable to an $8.0 million increase in our HOS revenues associated with continued contract growth and a price increase. Also contributing to the higher revenues was a $2.2 million increase in our Contract Operations Group revenues which is mainly due to incremental revenues associated with military construction and operation and maintenance projects. These increases were offset by decreases in our Carbon Services Group revenues of $6.0 million, as we are no longer providing these services to the Regulated Businesses, and a decrease in revenues in our Terratec business of $1.8 million.

Operation and maintenance. Operation and maintenance expense decreased $1.6 million, or 0.6%, for the year ended December 31, 2012, compared to the year ended December 31, 2011.

The following table provides information regarding operation and maintenance expense for the years ended December 31, 2012, and 2011, by major expense category:

	For the Years Ended December 31,			
	2012	**2011**	**Increase (Decrease)**	**Percentage**
	(Dollars in thousands)			
Production costs	$ 42,772	$ 47,897	$(5,125)	(10.7%)
Employee-related costs	71,002	75,012	(4,010)	(5.3%)
Operating supplies and services	117,749	108,552	9,197	8.5%
Maintenance materials and supplies	36,730	38,568	(1,838)	(4.8%)
Other	8,556	8,346	210	2.5%
Total	$276,809	$278,375	$(1,566)	(0.6%)

The increase in operating supplies and services is attributable to increased construction activity for our military contracts. In addition, 2011 included the release of a $2.2 million loss contract reserve due to the resolution of certain outstanding issues and uncertainties. Offsetting the increase in operating supplies and services are decreases in production, employee-related and maintenance costs which is the result of expired and terminated contracts. Additionally, operating supplies and services is lower due to lower Carbon Services Group expenses, which corresponds to its lower revenues.

Operating expense. The decrease in operating expenses for the year ended December 31, 2012 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Income from continuing operations before income taxes. The $6.5 million increase for the year ended December 31, 2012, is the result of the aforementioned changes in operating revenues and operating and maintenance expense.

Liquidity and Capital Resources

We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures. Our business is very capital intensive and requires significant capital resources. A majority of these capital resources are provided by internally generated cash flows from operations. When necessary, we obtain additional funds from external sources in the debt and equity capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general, as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to an unsecured revolving credit facility with aggregate bank commitments of $1.25 billion. We rely on this revolving credit facility and the capital markets to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. Disruptions in the credit markets may discourage lenders from extending the terms of such commitments or agreeing to new commitments. Market disruptions may also limit our ability to issue debt and equity securities in the capital markets. See "—Credit Facility and Short-Term Debt." In order to meet our short-term liquidity needs, we, through American Water Capital Corp. ("AWCC"), our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. AWCC had no outstanding borrowings and $41.8 million of outstanding letters of credit under its credit facility as of December 31, 2013. As of December 31, 2013, AWCC had $1.25 billion available under our credit facility that we could use to fulfill our short-term liquidity needs, to issue letters of credit and support our $630.3 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

In addition, our regulated operating companies receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from the rate base. Generally, we depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use our capital resources, including cash, to (i) fund operating and capital requirements, including construction expenditures, (ii) pay off maturing debt, (iii) pay dividends, (iv) fund pension and postretirement welfare obligations and (v) invest in new and existing ventures. We spend a significant amount of cash on construction projects that we expect to have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. See "Business—Regulation—Economic Regulation." We expect to fund future maturities of long-term debt through a combination of external debt and to the extent available cash flows from operations. Since we continue to make investments equal to or greater than our cash flows from operating activities, we have no plans to reduce debt significantly.

We believe that our ability to access the capital markets, our revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term requirements. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and to the extent necessary, our revolving credit facility. We believe we have sufficient liquidity and ability to manage our expenditures should there be a disruption of the capital and credit markets.

In addition, the Company can delay major capital investments or other funding requirements or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by, among other things, economic utility regulation; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; weather and seasonality; and overall economic conditions.

Cash flows from operating activities have been a reliable, steady source of funding, sufficient to meet operating requirements, make our dividend payments and fund a portion of our capital expenditure requirements. We will seek access to debt and equity capital markets to meet the balance of our capital expenditure requirements as needed. There can be no assurance that we will be able to access such markets successfully on favorable terms or at all. Operating cash flows can be negatively affected by changes in our rate regulated environments or changes in our customers' economic outlook and ability to pay for service in a timely manner. We can provide no assurance that our customers' historical payment pattern will continue in the future.

The following table provides a summary of the major items affecting our cash flows from operating activities for the periods indicated:

	For the Years Ended December 31, 2013	2012	2011
		(in thousands)	
Net income	$ 369,264	$ 358,070	$ 309,613
Add (subtract):			
Non-cash operating activities (1)	761,772	688,126	677,569
Changes in working capital (2)	(137,374)	38,812	7,905
Pension and postretirement healthcare contributions	(97,500)	(129,410)	(186,730)
Net cash flows provided by operations	$ 896,162	$ 955,598	$ 808,357

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(1) Includes, depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on utility accounts receivable, allowance for other funds used during construction, (gain) loss on sale of assets, and pension and non-pension post retirement benefits expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to accounts receivable and unbilled utility revenue, income taxes receivable, other current assets, accounts payable, taxes accrued (including income taxes), interest accrued and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address the timing issue through the aforementioned liquidity funding mechanisms. Our cash collections for our Regulated Businesses' accounts receivable has been slower than historical payment patterns, in particular for those operating companies in which we implemented the new CIS system in May 2013. We believe the slowdown in collections is the result of the system implementation and therefore is only temporary in nature. We implemented the CIS system in our remaining Regulated Businesses in October 2013 and we would expect to experience a similar slowdown in cash collections for these operating companies in the first half of 2014.

The decrease in cash flows from operations for the year ended December 31, 2013 compared to the same period in 2012 is principally due to changes in working capital, which is related to the aforementioned delays in billing and slower collections in our accounts receivable and the change in payables in 2013, as we were delayed in 2012 in executing payable at normal volumes due to the implementation of Phase I of our business transformation project. Partially offsetting these working capital decreases was a reduction in the pension and postretirement healthcare contributions in 2013.

The increase in cash flows from operations for the year ended December 31, 2012 compared to the same period in 2011 is primarily attributable to additional revenues in 2012 and lower pension and postretirement healthcare contributions.

The Company expects to make pension and postretirement benefit contributions to the plan trusts of $49.3 million in 2014, of which $10.7 million was already made in 2014. In addition, we estimate that contributions will amount to $64.0 million in 2015, $68.8 million in 2016, $67.5 million in 2017 and $62.3 million in 2018. Actual amounts contributed could change materially from these estimates as a result of changes in assumptions and actual investment returns.

Cash Flows from Investing Activities

Cash flows used in investing activities were as follows for the periods indicated:

	For the Years Ended December 31, 2013	2012	2011
		(in thousands)	
Net capital expenditures	$ (980,252)	$(928,574)	$(924,858)
Proceeds from sale of assets and securities	918	561,739	9,972
Acquisitions	(23,658)	(44,560)	(7,220)
Other investing activities, net (1)	(50,302)	29,039	9,709
Net cash flows used in investing activities	$(1,053,294)	$(382,356)	$(912,397)

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(1) Includes removal costs from property, plant and equipment retirements, net funds released and other.

Cash flows used in investing activities increased in 2013 compared to 2012 primarily due to an increase in our capital expenditures for the year ended December 31, 2013 principally as a result of incremental spending associated with the replacement of our transmission and distribution infrastructure.

Our infrastructure investment plan consists of both infrastructure renewal programs, where we replace infrastructure as needed, and major capital investment projects, where we construct new water and wastewater treatment and delivery facilities to meet new customer growth and water quality regulations. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

The following table provides a summary of our historical capital expenditures related to upgrading our infrastructure and systems:

	For the Years Ended December 31, 2013	2012	2011
		(in thousands)	
Transmission and distribution	$435,449	$343,640	$298,564
Treatment and pumping	89,278	138,072	191,771
Services, meter and fire hydrants	178,412	171,855	175,635
General structures and equipment	131,446	104,854	84,059
Business transformation project	59,746	107,049	99,891
Sources of supply	50,013	44,602	58,066
Wastewater	35,908	18,502	16,872
Total capital expenditures	$980,252	$928,574	$924,858

Capital expenditures for the year ended December 31, 2013, increased by $51.7 million or 5.6% compared to 2012, principally due to our continued replacement of transmission and distribution infrastructure, rehabilitation to storage facilities and dam rehabilitation and increased expenditures related to information systems, and vehicles. Partially offsetting this increase was reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects in 2012 as well as a reduction in our business transformation expenses also due to completion of Phase I of the project in 2012 and the implementation of a portion of Phase II in May 2013.

Capital expenditures for the year ended December 31, 2012 increased by $3.7 million, or 0.4%, compared to 2011, mainly as a result of an increase in the replacement of transmission/distribution infrastructure and higher business transformation project expenditures, partially offset by a reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects, for which major expenditures occurred in 2011.

In 2013, we implemented Phase II, the final phase, of our business transformation project. Through December 31, 2013 including AFUDC, capital expenditures amounted to $322.8 million on the project with $65.8 million spent in 2013. As we make adjustments to our operations as a result of this project, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. While we believe such expenditures to realize the efficiencies can be recovered through regulated rates, we can provide no guarantee that we will be able to achieve timely rate recovery of these increased costs associated with this transformation project. Any such delays or difficulties encountered with such recovery may have a material and adverse impact on our business, customer relationships and financial results.

The change in proceeds from sale of assets and securities from 2013 to 2012 and 2012 to 2011 reflects the fact that 2012 included cash proceeds of $ 561.7 million received from the sale of our Arizona, New Mexico and Ohio subsidiaries in 2012 partially offset by cash proceeds used for acquisition purposes, with the largest being the acquisition of additional regulated water operations in New York.

One avenue to seek growth is through tuck-ins, by helping commissions with troubled water systems as well as other acquisitions that are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions are funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

The following provides a summary of the acquisitions and dispositions affecting our cash flows from investing activities in the years indicated:

2013:

- We paid approximately $23.7 million for ten water and five wastewater system. These acquisitions added approximately 30,000 customers to our existing regulated footprint. The largest of these acquisitions was the acquisition of the stock of a wastewater system in Virginia with approximately 20,000 customers in November 2013 for a purchase price of $5.1 million (net of cash acquired of $6.9 million) plus assumed liabilities.
- We received approximately $0.9 million for the sale of assets and securities.

2012:

- We paid approximately $44.6 million for numerous regulated water and wastewater systems in New York, Pennsylvania, Indiana, Missouri and West Virginia, with the largest associated with the acquisition of seven regulated water systems in New York in May 2012 for a purchase price of $36.7 million plus assumed liabilities.
- We received approximately $561.7 million from the sale of our assets and securities, including $458.9 million associated with the sale of our Arizona, New Mexico and Ohio regulated subsidiaries.

2011:

- We paid approximately $7.2 million for numerous regulated water and wastewater systems in Missouri, New Jersey, and Pennsylvania, with the largest associated with the acquisition of 11 regulated water systems and 48 wastewater systems in Missouri in May 2011 for a purchase price of $3.3 million.
- We received approximately $10.0 million for the sale of assets and securities, including $6.2 million associated with the sale of our Texas subsidiary's assets and $2.9 million from the sale of the Applied Water Management subsidiary.

As previously noted, in 2014, we estimate that our total capital plan is $1.1 billion with approximately $900 million allocated to upgrading our infrastructure and systems, $100 million for acquisitions and $100 million for strategic investment purposes. For years in the foreseeable future beyond 2014, we estimate such investment will be between $1.1 and $1.2 billion per year.

We intend to invest capital prudently to provide essential services to our regulated customer base, while working with regulators in the various states in which we operate to have the opportunity to earn an appropriate rate of return on our investment and a return of our investment.

Our investing activities could require considerable capital resources which we have generated through operations and attained through financing activities. We can provide no assurances that these resources will be sufficient to meet our expected investment needs and may be required to delay or reevaluate our investment plans.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be funded with customer advances and contributions for construction (net of refunds). This amounted to $19.3 million, $31.9 million and $22.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. As previously noted AWCC is a wholly-owned finance subsidiary of the Company. Based on the needs of our regulated subsidiaries and the Company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the Company. The regulated subsidiaries and the Company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the Company's borrowings are not a source of capital for the regulated subsidiaries, the Company is not able to recover the interest charges on the Company's debt through regulated water and wastewater rates. As of December 31, 2013, AWCC has made long-term fixed rate loans and commercial paper loans to our Regulated Businesses amounting to $2.9 billion and $390.9 million, respectively. Additionally, as of December 31, 2013, AWCC has made long-term fixed rate loans and commercial paper loans to the Company totaling $778.3 million and $239.4 million to the Company, respectively.

On May 4, 2012, we and AWCC filed a universal shelf registration statement that enabled us to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, all subject to market demand and ratings status. During 2013 and 2012, $400 million and $300 million, respectively, of debt securities were issued pursuant to this filing.

As previously noted, on October 8, 2013, we announced the purchase and retirement through a tender offer of $225.8 million in aggregate outstanding principal amount of our 6.08% Senior Notes due 2017. On October 8, 2013, we paid $271.8 million to effect the tender, which in addition to the principal included a repurchase premium of $39.4 million and accrued interest of $6.6 million. Also, in October 2013 and related to the tender, we recorded transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. The redemption was originally financed through commercial paper borrowing. If we continue to finance this debt through commercial paper borrowings and with the assumption that current short-term rates remain the same, we would expect to have pre-tax interest expense savings of approximately $13.1 million in 2014.

On November 1, 2013, we issued notices of redemption for $74.8 million and $75.0 million of outstanding Senior Notes with an original maturity date of 2038 and interest rates of 8.25% and 10.0%, respectively. These notes were retired on December 1, 2013.

On November 20, 2013, AWCC issued $400 million of 3.850% Senior Notes due 2024.

Also on December 21, 2013, an additional $101.0 million with interest rate of 5.39% in Senior Notes matured.

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes—fixed rate	3.85%	2024(a)	$400,000
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	2.30%-2.90%	2021-2030(b)	8,122
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.59%-2.41%	2031-2033(c)	2,737
Total issuances				$410,859

(a) On November 20, 2013, AWCC closed on a 3.85% senior fixed rate notes. Proceeds used to refinance commercial paper borrowings.

(b) Proceeds from the above issuance were received in the fourth quarter of 2013 and have been utilized to fund certain specific projects. $6.7 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

(c) Proceeds from the above issuances were received from Pennsylvania Infrastructure Investment Authority (“PennVest”) and has been used to fund certain projects.

In addition to the above issuances, we also assumed $12.7 million of debt as a result of a acquisitions in 2013, of which $12.5 million is the result of our Dale Service Corporation stock acquisition in the fourth 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 (in thousands)
American Water Capital Corp.	Senior notes—fixed rate	5.39%-10.00%	2013-2017	$476,638
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds—fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatory redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Capital leases & other			359
Total retirements & redemptions				$498,310

(1) Includes a $3.6 million of non-cash redemptions resulting from the use of restricted funds.

The following long-term debt was issued in 2012:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes—fixed rate	4.30%	2042(a)	$300,000
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2025-2041(b)	68,746
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.00%-2.76%	2025-2041(c)	14,730
Other subsidiaries	Mortgage bonds—fixed rate	4.29%	2022	700
Total issuances				$384,176

(a) The net proceeds from this issuance were used to finance certain redemptions of long-term debt and to fund the repayment of short-term debt.
(b) Proceeds from these issuances were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the Trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.
(c) Proceeds from these issuances were received from the Pennsylvania Infrastructure Investment Authority and has been used to fund specified projects.

Also, in the second quarter of 2012, and in connection with the acquisition of our additional subsidiaries in New York, we assumed debt of $25.2 million with coupon rates of 5.00% to 6.00% and maturity dates ranging from 2015 to 2035. In September 2012, we redeemed $10.9 million of these outstanding bonds with original maturity dates of 2031 to 2035 and interest rates ranging from 5.00% to 6.00%.

The following long-term debt was retired through optional redemption or payment at maturity during 2012:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes—fixed rate	8.25%	2038	$ 10
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-9.60%	2012-2041	447,325
Other subsidiaries	Mortgage bonds—fixed rate	6.85%-7.95%	2012	24,200
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2036	1,549
Other	Capital leases & other			419
Total retirements & redemptions				$473,503

Included in the long-term debt redemptions/retirements is $4.2 million related to our previously held Ohio subsidiary, which was classified in discontinued operations prior to its divestiture.

The following long-term debt was issued in 2011:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-1.56%	2031	$12,510
Total issuances				$12,510

The following long-term debt was retired through optional redemption or payment at maturity during 2011:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes—fixed rate	6.00%-8.25%	2011-2039	$28,287
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.90%	2011-2034	7,976
Other subsidiaries	Mortgage bonds—fixed rate	8.21%-9.71%	2011-2022	33,191
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2019	1,888
Other	Capital leases & other			4,078
Total retirements & redemptions				$75,420

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheets.

Credit Facility and Short-Term Debt

The short-term debt balance, consisting of commercial paper, net of discount, amounted to $630.3 million and $270.0 million at December 31, 2013 and 2012, respectively.

On October 29, 2012, we terminated a previously maintained senior unsecured credit facility for $840 million and entered into a new unsecured revolving credit facility with $1 billion in aggregate total commitments from a diversified group of 14 banks and which was to have matured on October 29, 2017 (subject to up to two 1-year extensions at our request). On September 9, 2013, The Company announced that AWCC and its lender had agreed to increase lending commitments under AWCC's revolving credit facility from $1 billion to $1.25 billion. In addition, $1.18 billion of the credit facility has been extended from its original termination date of October 2017 to October 2018. Interest rates on advances under the facility are based on a credit spread to the Eurodollar rate or base rate with the credit spread of 1.00% through June 2012 and then based on the higher of AWCC's Moody's Investors Service, which we refer to as Moody's or Standard & Poor's Ratings Services ratings, which we refer to as S&P, credit rating. At current ratings that spread would be 1.00%. This facility requires the Company to maintain a ratio of consolidated capitalization of not more than 0.70 to 1.00. The facility will be principally used to support AWCC's commercial paper program and to provide up to $150.0 million in letters of credit.

We closely monitor events in the financial markets and the financial institutions associated with this credit facility. In accordance with the credit agreement, no financial institution can have more than $250.0 million of the aggregate commitment through the facility expiration date . If any lender defaults in its obligation to fund advances, the Company may request the other lenders to assume the defaulting lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment. However, the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will be able to replace a defaulting lender.

The following table provides information as of December 31, 2013 and 2012, regarding the respective credit facility in effect at the time, letters of credit sub-limits and available funds under those revolving credit facilities, as well as outstanding amounts of commercial paper and outstanding borrowings under the respective facilities:

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sublimit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
			(in thousands)			
December 31, 2013	$1,250,000	$1,208,215	$150,000	$108,215	$630,307	$—
December 31, 2012	$1,000,000	$ 967,137	$150,000	$117,137	$269,985	$—

AWCC had no outstanding borrowings under the credit facility and $41.6 million of outstanding letters of credit under this credit facility as of February 21, 2014. Also, as of February 21, 2014, AWCC had $629.9 million of commercial paper outstanding.

The weighted-average interest rate on short-term borrowings for the years ended December 31, 2013 and 2012 was approximately 0.37% and 0.49%, respectively.

Capital Structure

The following table indicates the percentage of our capitalization represented by the components of our capital structure as of December 31, 2013, 2012 and 2011:

	At December 31, 2013	At December 31, 2012	At December 31, 2011
Common stockholder equity and preferred stock without mandatory redemption rights	45%	44%	42%
Long-term debt and redeemable preferred stock at redemption value	49%	52%	53%
Short-term debt and current portion of long-term debt	6%	4%	5%
	100%	100%	100%

The changes in the capital structure between periods were mainly attributable to changes in outstanding commercial paper balances. The increase in 2011 was the result of funding the majority of 2011 cash requirements with commercial paper as a result of anticipating the proceeds from the divestiture of our Arizona and New Mexico regulated businesses in 2012. We used the net proceeds from the sale to pay down commercial paper in 2012.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue debt or access our revolving credit lines. We were in compliance with our covenants as of December 31, 2013. Long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. On December 31, 2013, our ratio was 0.55 to 1.00 and therefore we were in compliance with the ratio.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we also issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities, to lower our overall cost of debt.

On May 24, 2013, Standard & Poor's Rating Service, ("S&P"), upgraded its corporate credit rating to A- on AWCC and American Water and AWCC's "A2" short term rating. On that date, they also confirmed its stable rating outlook for American Water and AWCC. On May 29, 2013, Moody's upgraded its rating outlook for both American Water and AWCC from Baa2 to Baa1 and revised its rating outlook to stable.

The following table shows the Company's securities ratings as of December 31, 2013:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flow is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Dividends

Our board of directors has adopted a dividend practice to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. We expect that dividends will be paid quarterly to holders of record approximately 15 days prior to the distribution date. Since the dividends on our common stock will not be cumulative, only declared dividends will be paid.

During 2013, 2012 and 2011, we paid $149.5 million, $213.5 million and $157.9 million in dividends, respectively. For 2013, we paid a dividend of $0.28 per share on December 2, September 3 and June 3 to all shareholders of record as of November 15, 2013, August 19, 2013, and May 24, 2013, respectively.

For 2012, we paid a dividend of $0.25 per share on December 28, December 3 and September 3 and $0.23 per share on June 1 and March 1. The December 28, 2012 cash dividend payment of $0.25 per share would have historically been paid in March 2013, however, the Board approved accelerating the payment date to 2012 to take advantage of the existing 2012 tax rates. For 2011, we paid a dividend of $0.23 per share on December 1 and September 1 and $0.22 per share on June 1 and March 1.

On December 13, 2013, our board of directors declared a quarterly cash dividend payment of $0.28 per share payable on March 3, 2014 to all shareholders of record as of February 3, 2014.

Regulatory Restrictions

The issuance by the Company or AWCC of long-term debt or equity securities does not require authorization of any state PUC if no guarantee or pledge of the regulated subsidiaries is utilized. However, state PUC authorization is required to issue long-term debt or equity securities at most of our regulated subsidiaries. Our regulated subsidiaries normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under applicable law, our subsidiaries can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the dividends that the subsidiary can distribute to us.

Insurance Coverage

We carry various property, casualty and financial insurance policies with limits, deductibles and exclusions that we believe are consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. Additionally, annual policy renewals can be impacted by claims experience which in turn can impact coverage terms and conditions on a going forward basis. We are self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our short-term and long-term financial condition and our results of operations and cash flows.

Contractual Obligations and Commitments

We enter into obligations with third parties in the ordinary course of business. These financial obligations, as of December 31, 2013, are set forth in the table below:

Contractual obligation	**Total**	**Less Than 1 year**	**1-3 Years**	**3-5 years**	**More Than 5 years**
			(in thousands)		
Long-term debt obligations (a)	$ 5,183,709	$ 12,492	$ 110,178	$1,042,563	$4,018,476
Interest on long-term debt (b)	4,443,386	294,944	592,723	546,411	3,009,308
Capital lease obligations (c)	913	32	78	99	704
Interest on capital lease obligations (d)	952	111	212	197	432
Operating lease obligations (e)	147,530	15,898	24,317	17,997	89,318
Purchase water obligations (f)	715,443	54,288	105,615	87,017	468,523
Other purchase obligations (g)	76,416	76,416	—	—	—
Postretirement benefit plans' obligations (h)	79,737	12,137	35,300	32,300	—
Pension plan obligations (h)	273,191	37,191	97,500	97,500	41,000
Preferred stocks with mandatory redemption requirements	18,902	1,650	3,300	3,300	10,652
Interest on preferred stock with mandatory redemption requirements	14,155	1,549	2,671	2,101	7,834
Other obligations (i)	896,770	203,601	134,508	116,546	442,115
Total	$11,851,104	$710,309	$1,106,402	$1,946,031	$8,088,362

(a)

Note: The above table reflects only financial obligations and commitments. Therefore, performance obligations associated with our Market-Based Operations are not included in the above amounts.

(a) Represents sinking fund obligations and debt maturities.

(b) Represents expected interest payments on outstanding long-term debt. Amounts reported may differ from actual due to future financing of debt.
(c) Represents future minimum payments under noncancelable capital leases.
(d) Represents expected interest payments on noncancelable capital leases.
(e) Represents future minimum payments under noncancelable operating leases, primarily for the lease of motor vehicles, buildings, land and other equipment including water facilities and systems constructed by partners under the Public-Private Partnerships described below.
(f) Represents future payments under water purchase agreements for minimum quantities of water.
(g) Represents the open purchase orders as of December 31, 2013, for goods and services purchased in the ordinary course of business.
(h) Represents contributions expected to be made to pension and post retirement benefit plans for the years 2014 through 2019.
(i) Includes an estimate of advances for construction to be refunded, capital expenditures estimated to be required under legal and binding contractual obligations, contracts entered into for energy purchases, a liability associated with a conservation agreement and service agreements.

Public-Private Partnerships

West Virginia-American Water Company, which we refer to as WVAWC, has entered into a series of agreements with various public entities, which we refer to as the Partners, to establish certain joint ventures, commonly referred to as "public-private partnerships." Under the public-private partnerships, WVAWC constructed utility plant, financed by WVAWC, and the Partners constructed utility plant (connected to WVAWC's property), financed by the Partners. WVAWC agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds, commonly referred to as IDBs, issued by the Partners under a state Industrial Development Bond and Commercial Development Act. WVAWC leased back the total facilities, including portions funded by both WVAWC and the Partners, under leases for a period of 40 years.

WVAWC leased back the transferred facilities under capital leases for a period of 40 years. The leases have payments that approximate the payments required by the terms of the IDBs. We have presented the transaction on a net basis in the consolidated financial statements. The carrying value of the transferred facilities, which is presented within utility plant, was approximately $158. 1 million at December 31, 2013.

Performance Obligations

We have entered into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. These military services agreements expire between 2051 and 2060 and have remaining performance commitments as measured by estimated remaining contract revenues of $2.0 billion at December 31, 2013. The Operations and Maintenance agreements with municipalities and other customers expire between 2014 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $928.0 million at December 31, 2013. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain major maintenance for some of the facilities, in exchange for an annual fee.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Although our management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on our financial condition and results of operations as reflected in our consolidated financial statements.

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions in matters that are inherently uncertain and that may change in subsequent periods. Our management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with our audit committee. In addition, our management has also reviewed the following disclosures regarding the application of these critical accounting policies with the audit committee.

Regulatory Accounting

Our regulated utility subsidiaries are subject to regulation by state PUCs and the local governments of the states in which they operate. As such, we account for these regulated operations in accordance with authoritative guidance that requires us to reflect the effects of rate regulation in our financial statements. Use of the authoritative guidance is applicable to utility operations that meet the following criteria (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. As of December 31, 2013, we had concluded that the operations of our regulated subsidiaries meet the criteria. If it is concluded in a future period that a separable portion of the business no longer meets the criteria, we are required to eliminate the financial statement effects of regulation for that part of the business, which would include the elimination of any or all regulatory assets and liabilities that had been recorded in the consolidated financial statements. Failure to meet the criteria of the authoritative guidance could materially impact our consolidated financial statements as a one-time extraordinary item and continued impacts on our operating activities.

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. As of December 31, 2013, we have recorded $858.5 million of net regulatory assets, including $242.9 million of income taxes that are recoverable through rates, within our Consolidated Financial Statements. Also, at December 31, 2013, we had recorded $373.3 million of regulatory liabilities within our consolidated financial statements. See Note 6 of the Notes to Consolidated Financial Statements for further information regarding the significant regulatory assets and liabilities.

For each regulatory jurisdiction where we conduct business, we continually assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates. If subsequent events indicate that the regulatory assets or liabilities no longer meet the criteria for probable future recovery or settlement, our statement of operations and financial position could be materially affected.

Goodwill

The Company’s annual impairment reviews are performed as of November 30 of each year, in conjunction with the timing of the completion of the Company’s annual strategic business plan. At December 31, 2013, the Company’s goodwill was $ 1,207.8 million. The Company also undertakes interim reviews 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.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendments allow an entity first to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption was permitted.

The Company decided to adopt this new guidance in 2012 and for its 2013 and 2012 annual tests applied the qualitative test (“step 0” or “step 0 test”) to its reporting units for the annual impairment test performed as of November 30, 2013 and 2012.

The Company completed a quantitative fair value measurement of its reporting units when performing its goodwill impairment analysis on November 30, 2011. As of the 2011 testing date, a quantitative assessment was made and implied that the fair value of its reporting units was well in excess of their carrying amount and no impairment was required.

In the 2013 and 2012 qualitative step 0 test at November 30, 2013 and 2012, after assessing various events and circumstances that would affect the estimated fair value of the reporting units in its base line November 30, 2011 test, the Company determined that it was not required to calculate the fair value of its reporting units at November 30, 2013 and 2012. The Company determined that it was more likely than not that its reporting unit fair values are greater than the reporting unit carrying values and no impairment is necessary.

On a periodic basis or in the case of a triggering event, the Company will use the two-step impairment test to identify potential goodwill impairment and measures the amount of a goodwill impairment loss to be recognized (if any). The step 1 calculation used to identify potential impairment compares the calculated fair value for each of the Company’s reporting units to their respective net carrying values (book values), including goodwill, on the measurement date. If the fair value of any reporting unit is less than such reporting unit’s carrying value, then step 2 is performed to measure the amount of the impairment loss (if any) for such reporting unit.

The step 2 calculation of the impairment test compares, by reporting unit, the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of each reporting unit above the fair value of such reporting unit’s identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill for any reporting unit, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill) for that reporting unit.

The determination of the fair value of each reporting unit and the fair value of each reporting unit’s assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company’s performance. These market events could include a decline over a period of time of the Company’s stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company’s market price consistent with its peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

For the years ended December 31, 2013 and 2012, no impairment charge was recorded. For the year ended December 31, 2011, no impairment charge was recorded for our continuing operations. In 2011, we recorded a pre-tax charge to goodwill of $25.5 million relating to parent company goodwill associated with businesses classified as discontinued operations.

Impairment of Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, we estimate the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on the consolidated financial statements.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which we invest, as well as volatility inherent in the external markets. In assessing potential impairment for these investments, we consider these factors. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Revenue Recognition

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are delivered to customers and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period. Unbilled utility revenues as of December 31, 2013 and 2012 were $217.1 million and $180.6 million, respectively. Increases in volumes delivered to the utilities' customers and rate mix due to changes in usage patterns in customer classes in the period could be significant to the calculation of unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue; however, since the majority of our customers are generally billed on a monthly basis, total operating revenues would remain materially unchanged. During 2013 and in connection with our CIS implementation, there are instances where billings to customers have been delayed, including a conscious decision to delay billings in order to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As a result of these delays in billings, unbilled revenues at December 31, 2013 has increased significantly, however, total operating revenues would be materially unchanged due to a corresponding decrease in billed revenue.

Revenue from Market-Based Operations is recognized as services are rendered. Revenues from certain construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities on the balance sheet until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Accounting for Income Taxes

The parent company and its subsidiaries participate in a consolidated federal income tax return for United States tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Accounting for Pension and Postretirement Benefits

We maintain noncontributory defined benefit pension plans covering eligible employees of our regulated utility and shared service operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 will be provided with a 5.25% of base pay defined contribution plan. We also maintain other postretirement benefit plans, which provide varying levels of medical and life insurance for eligible retirees. These retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002. The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees. The Company does not participate in a multiemployer plan. See Note 14 of the Notes to Consolidated Financial Statements for further information regarding the accounting for the defined benefit pension plans and postretirement benefit plans. The Company's pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to its actuaries, including the discount rate and expected long-term rate of return on plan assets. Material changes in the Company's pension and postretirement benefit costs may occur in the future due to changes in these assumptions as well as fluctuations in plan assets. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes. The primary assumptions are:

- Discount Rate—The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due;
- Expected Return on Plan Assets ("EROA")—Management projects the future return on plan assets considering prior performance, but primarily based upon the plans' mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs we record currently;
- Rate of Compensation Increase—Management projects employees' pay increases, which are used to project employees' pension benefits at retirement; and
- Health Care Cost Trend Rate—Management projects the expected increases in the cost of health care.

The discount rate assumption, which is determined for the pension and postretirement benefit plans independently, is subject to change each year, consistent with changes in applicable high-quality, long-term corporate bond indices. At year end 2011, we began using an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a portfolio containing the majority of United States-issued AA-graded non-callable (or callable with make-whole provisions) corporate bonds. For each plan, the discount rate was developed as the level equivalent rate that would yield the same present value as using spot rates aligned with the projected benefit payments. The discount rate for determining pension benefit obligations was 5.12%, 4.17% and 5.02% at December 31, 2013, 2012 and 2011, respectively. The discount rate for determining other post-retirement benefit obligations was 5.10%, 4.16% and 5.05% at December 31, 2013, 2012 and 2011, respectively.

In selecting an expected return on plan assets, we considered tax implications, past performance and economic forecasts for the types of investments held by the plans. The long-term EROA assumption used in calculating pension cost was 7.49% for 2013, 7.75%, for 2012 and 7.90% for 2011. The weighted average EROA assumption used in calculating other postretirement benefit costs was 6.99% for 2013, 7.41% for 2012 and 7.60% for 2011.

The asset allocations for the Company's U.S. pension plan at December 31, 2013 and 2012, by asset category, are as follows:

Asset category	Target Allocation 2014	Percentage of Plan Assets At December 31, 2013	2012
Equity securities	52%	64%	70%
Fixed income	40%	35%	30%
Real Estate	6%	—	—
Real estate investment trusts ("REITs")	2%	1%	—
Total	100%	100%	100%

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor's and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company's other postretirement benefit plans are partially funded. The asset allocations for the Company's other postretirement benefit plans at December 31, 2013 and 2012, by asset category, are as follows:

Asset category	Target Allocation 2014	Percentage of Plan Assets At December 31, 2013	2012
Equity securities	47%	48%	59%
Fixed income	53%	52%	38%
REITs	—	—	3%
Total	100%	100%	100%

The Company's investment policy, and related target asset allocation, is evaluated periodically through asset liability studies. The studies consider projected cash flows of maturity liabilities, projected asset class return risk, and correlation and risk tolerance.

The pension and postretirement welfare plan trusts investments include debt and equity securities held either directly or through commingled funds. The trustee for the Company's defined benefit pension and post retirement welfare plans uses independent valuation firms to calculate the fair value of plan assets. Additionally, the company independently verifies the assets values. Approximately 56.1% of the assets are valued using the quoted market price for the assets in an active market at the measurement date, while 43.9% of the assets are valued using other inputs.

In selecting a rate of compensation increase, we consider past experience in light of movements in inflation rates. Our rate of compensation increase was 3.15 % for 2013, 3.19% for 2012 and 3.25% for 2011.

In selecting health care cost trend rates, we consider past performance and forecasts of increases in health care costs. Our health care cost trend rate used to calculate the periodic cost was 7.25 % in 2013 gradually declining to 5.00% in 2019 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Change in Actuarial Assumption	Impact on Other Postretirement Benefit Obligation at December 31, 2013	Impact on 2013 Total Service and Interest Cost Components
	(in thousands)	
Increase assumed health care cost trend by 1%	$72,238	$7,367
Decrease assumed health care cost trend by 1%	$60,261	$5,974

We will use a discount rate and EROA of 5.12 % and 7.49%, respectively, for estimating our 2014 pension costs. Additionally, we will use a discount rate and EROA of 5.10% and 6.99%, respectively, for estimating our 2014 other postretirement benefit costs. A decrease in the discount rate or the EROA would increase our pension expense. Our 2012 and 2011 pension and postretirement costs, including such expenses charged to our discontinued operations, were $72.2 million and $87.3 million, respectively. The Company expects to make pension and postretirement benefit contributions to the plan trusts of $49.3 million, $64.0 million, $68.8 million $67.5 and $62.3 million in 2014, 2015, 2016, 2017 and 2018, respectively. Actual amounts contributed could change significantly from these estimates. The assumptions are reviewed annually and at any interim re-measurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension and postretirement benefit amounts as they occur, or over a period of time if allowed under applicable accounting standards. As these assumptions change from period to period, recorded pension and postretirement benefit amounts and funding requirements could also change.

New Accounting Standards

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.

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.

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to increase transparency around valuation inputs and investment categorization. This guidance was effective for interim and annual periods beginning on January 1, 2012 and was required to be applied prospectively. The adoption of this guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Comprehensive Income

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new guidance allows an entity to present components of net income and other comprehensive income in either one continuous statement or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. In December 2011, the FASB deferred the requirement to present reclassification adjustments of other comprehensive income on the face of the income statement. This new guidance on the presentation of comprehensive income was effective for the Company beginning on January 1, 2012. As the Company already presented the components of net income and other comprehensive income in one continuous statement prior to the adoption of the guidance, the adoption of the new guidance did not have an impact on its results of operations, financial position or cash flows.

Testing Goodwill for Impairment

In September 2011, the FASB updated the accounting guidance related to testing goodwill for impairment. This update permits an entity to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test that is currently in place. Under the new guidance, an entity will not be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This update is effective for annual and interim goodwill impairment tests performed by the Company beginning on January 1, 2012. The adoption of this update to the guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Revenue Arrangements with Multiple Deliverables

In October 2009, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. This guidance was effective for the Company beginning on January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The adoption of this guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Business Combinations

In December 2010, the FASB clarified the requirements for reporting of pro forma revenue and earnings disclosures for business combinations. The accounting update specified that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expanded the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations finalized after January 1, 2011. As this guidance clarifies and provides for additional disclosure requirements only, the adoption of this guidance has not had a material impact on the Company's results of operations, financial position or cash flows.

Intangibles—Goodwill

In December 2010, the FASB issued authoritative guidance that modifies step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The update requires that for those reporting units, an entity is required to perform step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing authoritative guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance was effective for the Company beginning on January 1, 2011. The adoption of this update did not have a significant impact on the Company's results of operations, financial position or cash flows.

The following recently issued accounting standards are not yet required to be adopted by the Company or included in the consolidated results of operations or financial position 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 re quires 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.

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 them 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We are exposed to risks from changes in interest rates as a result of our issuance of variable and fixed rate debt and commercial paper. We manage our interest rate exposure by limiting our variable rate exposure and by monitoring the effects of market changes in interest rates. We also have the ability to enter into financial derivative instruments, which could include instruments such as, but not limited to, interest rate swaps, forward starting swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. As of December 31, 2013, a hypothetical increase of interest rates by 1% associated with our short-term borrowings would result in a $6.3 million decrease in our pre-tax earnings.

In July 2010, we entered into an interest rate swap agreement with a notional amount of $100.0 million. This agreement effectively converted the interest on $100.0 million of outstanding 6.085% fixed rate debt maturing 2017 to a variable rate of six-month LIBOR plus 3.422%. We entered into this interest rate swap to mitigate interest cost at the parent company relating to debt that was incurred by our prior owners and was not used in any manner to finance the cash needs of our subsidiaries. For the years ended December 31, 2013 and 2012, the interest rate swap reduced interest expense by $2.0 and $2.4 million, respectively. As the swap interest rates are fixed through April 2014, a hypothetical 1% increase in the interest rates associated with the interest swap agreement would result in a $0.3 million decrease on our pre-tax earnings for the year ended December 31, 2013. This calculation holds all other variables constant and assumes only the discussed changes in interest rates.

Our risks associated with price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

We are exposed to credit risk through our water, wastewater and other water-related activities for both our Regulated Businesses and Market-Based Operations. Our Regulated Businesses serve residential, commercial, industrial and other customers while our Market-Based Operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated Businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

The Company's retirement trust assets are exposed to the market prices of debt and equity securities. Changes to the retirement trust asset value can impact the Company's pension and other benefits expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover pension and other benefit costs through rates. In addition, pension and other benefits liabilities decrease as fixed income asset values decrease (fixed income yields rise) since the rate at which we discount pension and other retirement trust asset future obligations is highly correlated to fixed income yields.

We are also exposed to a potential national economic recession or further deterioration in local economic conditions in the markets in which we operate. The credit quality of our customer accounts receivable is dependent on the economy and the ability of our customers to manage through unfavorable economic cycles and other market changes. In addition, as a result of the downturn in the economy and heightened sensitivity of the impact of additional rate increases on certain customers, there can be no assurances that regulators will grant sufficient rate authorizations. Therefore our ability to fully recover operating expense, recover our investment and provide an appropriate return on invested capital made in our Regulated Businesses may be adversely impacted.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows, and of changes in stockholders' equity, present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2014

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

(In thousands, except per share data)

	December 31,	
	2013	2012
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $3,894,326 in 2013 and $3,657,221 in 2012	$12,244,359	$11,584,944
Nonutility property, net of accumulated depreciation of $228,465 in 2013 and $199,467 in 2012	146,803	154,420
Total property, plant and equipment	12,391,162	11,739,364
Current assets		
Cash and cash equivalents	26,964	24,433
Restricted funds	28,505	29,756
Accounts receivable	244,568	221,655
Allowance for uncollectible accounts	(33,953)	(26,874)
Unbilled revenues	217,147	180,628
Income taxes receivable	5,778	9,594
Materials and supplies	32,973	29,772
Other	28,408	30,483
Total current assets	550,390	499,447
Regulatory and other long-term assets		
Regulatory assets	858,465	1,199,114
Restricted funds	754	10,791
Goodwill	1,207,764	1,207,250
Other	60,998	63,010
Total regulatory and other long-term assets	2,127,981	2,480,165
TOTAL ASSETS	$15,069,533	$14,718,976
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 178,379 shares outstanding in 2013 and 176,988 in 2012)	$ 1,784	$ 1,770
Paid-in-capital	6,261,396	6,222,644
Accumulated deficit	(1,495,698)	(1,664,955)
Accumulated other comprehensive income	(34,635)	(116,191)
Treasury stock	(5,043)	0
Common stockholders' equity	4,727,804	4,443,268
Preferred stock without mandatory redemption requirements	0	1,720
Total stockholders' equity	4,727,804	4,444,988
Long-term debt		
Long-term debt	5,212,881	5,190,509
Redeemable preferred stock at redemption value	17,177	18,861
Total capitalization	9,957,862	9,654,358
Current liabilities		
Short-term debt	630,307	269,985
Current portion of long-term debt	14,174	115,919
Accounts payable	264,589	279,613
Taxes accrued	32,400	35,555
Interest accrued	52,087	53,810
Other	241,976	239,950
Total current liabilities	1,235,533	994,832
Regulatory and other long-term liabilities		
Advances for construction	375,729	379,737
Deferred income taxes	1,822,088	1,545,513
Deferred investment tax credits	26,408	27,909
Regulatory liabilities	373,319	364,181
Accrued pension expense	108,542	461,647
Accrued postretirement benefit expense	88,419	254,147
Other	38,929	40,516
Total regulatory and other long-term liabilities	2,833,434	3,073,650
Contributions in aid of construction	1,042,704	996,136
Commitments and contingencies (See Note 15)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$15,069,533	$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

(In thousands, except per-share data)

	Years ended December 31,		
	2013	2012	2011
Operating revenues	$2,901,858	$2,876,889	$2,666,236
Operating expenses			
Operation and maintenance	1,312,724	1,350,040	1,301,794
Depreciation and amortization	407,718	381,503	351,821
General taxes	234,642	221,212	210,478
(Gain) loss on asset dispositions and purchases	925	(839)	(993)
Total operating expenses, net	1,956,009	1,951,916	1,863,100
Operating income	945,849	924,973	803,136
Other income (expenses)			
Interest, net	(308,164)	(310,794)	(312,415)
Loss on extinguishment of debt	(40,583)	0	0
Allowance for other funds used during construction	12,639	15,592	13,131
Allowance for borrowed funds used during construction	6,377	7,771	5,923
Amortization of debt expense	(6,603)	(5,358)	(5,055)
Other, net	(4,045)	(926)	(1,040)
Total other income (expenses)	(340,379)	(293,715)	(299,456)
Income from continuing operations before income taxes	605,470	631,258	503,680
Provision for income taxes	236,206	257,008	198,751
Income from continuing operations	369,264	374,250	304,929
Income (loss) from discontinued operations	0	(16,180)	4,684
Net income	$ 369,264	$ 358,070	$ 309,613
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $46,974, $(16,894) and $(19,498), respectively	73,472	(26,425)	(30,497)
Pension plan amortized to periodic benefit cost:			
Prior service cost, net of tax of $111, $113 and $112, respectively	174	176	175
Actuarial loss, net of tax of $5,697, $4,668 and $2,879, respectively	8,911	7,301	4,504
Foreign currency translation adjustment	(1,001)	434	(413)
Other comprehensive income (loss)	81,556	(18,514)	(26,231)
Comprehensive income	$ 450,820	$ 339,556	$ 283,382
Basic earnings per share (a)			
Income from continuing operations	$ 2.08	$ 2.12	$ 1.74
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.08	$ 2.03	$ 1.76
Diluted earnings per share (a)			
Income from continuing operations	$ 2.06	$ 2.11	$ 1.73
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.06	$ 2.01	$ 1.75
Average common shares outstanding during the period			
Basic	177,814	176,445	175,484
Diluted	179,056	177,671	176,531
Dividends per common share	$ 1.12	$ 0.98	$ 1.13

(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

(In thousands, except per share data)

	Years Ended December 31, 2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 369,264	$ 358,070	$ 309,613
Adjustments			
Depreciation and amortization	407,718	381,503	351,821
Provision for deferred income taxes	250,500	200,440	195,494
Amortization of deferred investment tax credits	(1,501)	(1,518)	(1,542)
Provision for losses on accounts receivable	26,953	26,701	19,952
Allowance for other funds used during construction	(12,639)	(15,592)	(13,131)
(Gain) loss on asset dispositions and purchases	925	(839)	(993)
Pension and non-pension postretirement benefits	78,069	87,289	71,439
Stock-based compensation expense	12,474	11,470	10,008
Other, net	(727)	(1,328)	44,521
Changes in assets and liabilities			
Receivables and unbilled revenues	(79,306)	(34,528)	(34,819)
Taxes receivable, including income taxes	3,816	(1,922)	(1,199)
Other current assets	672	(5,223)	(1,305)
Pension and non-pension postretirement benefit contributions	(97,500)	(129,410)	(186,730)
Accounts payable	16,215	(10,572)	37,824
Taxes accrued, including income taxes	(30,182)	48,440	4,274
Interest accrued	(1,723)	(5,647)	(1,417)
Change in book overdraft	(32,120)	34,172	0
Other current liabilities	(14,746)	14,092	4,547
Net cash provided by operating activities	896,162	955,598	808,357
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(980,252)	(928,574)	(924,858)
Acquisitions	(23,658)	(44,560)	(7,220)
Proceeds from sale of assets and securities	918	561,739	9,972
Removal costs from property, plant and equipment retirements, net	(64,727)	(57,101)	(53,134)
Net funds released	14,425	86,140	62,843
Net cash used in investing activities	(1,053,294)	(382,356)	(912,397)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	404,157	315,430	12,510
Repayment of long-term debt	(493,095)	(471,954)	(70,045)
Proceeds from short-term borrowings with maturities greater than three months	221,000	0	0
Net short-term borrowings (repayments) with maturities less than three months	139,322	(211,064)	303,024
Proceeds from issuances of employee stock plans and DRIP	26,351	27,860	13,866
Advances and contributions for construction, net of refunds of $23,351 in 2013, $17,850 in 2012 and $21,061 in 2011	19,251	31,909	22,298
Change in bank overdraft position	0	(34,812)	(16,862)
Debt issuance costs	(4,503)	(7,393)	(552)
Redemption of preferred stocks	(3,370)	(4,376)	(1,888)
Dividends paid	(149,450)	(213,459)	(157,855)
Other	0	4,843	639
Net cash provided by (used in) financing activities	159,663	(563,016)	105,135
Net increase in cash and cash equivalents	2,531	10,226	1,095
Cash and cash equivalents at beginning of period	24,433	14,207	13,112
Cash and cash equivalents at end of period	$ 26,964	$ 24,433	$ 14,207
Cash paid during the year for:			
Interest, net of capitalized amount	$ 317,826	$ 329,331	$ 331,944
Income taxes, net of refunds of $127 in 2013, $766 in 2012 and $812 in 2011	$ 7,788	$ 5,352	$ 14,269
Non-cash investing activity			
Capital expenditures acquired on account but unpaid as of year end	$ 128,902	$ 159,119	$ 104,816
Non-cash financing activity			
Advances and contributions	$ 17,590	$ 12,279	$ 23,504
Dividends accrued	$ 49,909	$ 0	$ 40,403
Long-term debt	$ 6,702	$ 68,746	$ 0
Long-term debt retired	$ (3,565)	$ 0	$ 0

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

(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**	**Total Stockholders' Equity**
Balance at December 31, 2010	174,996	$1,750	$6,156,675	$(1,959,235)	$ (71,446)	(1)	$ (19)	$ 4,547	$4,132,272
Net income	—	—	—	309,613	—	—	—	—	309,613
Direct stock reinvestment and purchase plan, net of expense of $19	64	1	1,807	—	—	—	—	—	1,808
Employee stock purchase plan	121	1	3,533	—	—	—	—	—	3,534
Stock-based compensation activity	483	5	18,543	(921)	—	1	19	—	17,646
Other comprehensive loss, net of tax of $(16,507)	—	—	—	—	(26,231)	—	—	—	(26,231)
Dividends	—	—	—	(198,258)	—	—	—	—	(198,258)
Balance at December 31, 2011	175,664	$1,757	$6,180,558	$(1,848,801)	$ (97,677)	0	$ 0	$ 4,547	$4,240,384
Net income	—	—	—	358,070	—	—	—	—	358,070
Direct stock reinvestment and purchase plan, net of expense of $14	60	0	2,092	—	—	—	—	—	2,092
Employee stock purchase plan	87	1	3,306	—	—	31	1,046	—	4,353
Stock-based compensation activity	1,177	12	36,688	(1,168)	—	(31)	(1,046)	—	34,486
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(2,827)	(2,827)
Other comprehensive loss, net of tax of $(12,113)	—	—	—	—	(18,514)	—	—	—	(18,514)
Dividends	—	—	—	(173,056)	—	—	—	—	(173,056)
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	—	—	—	369,264	—	—	—	—	369,264
Direct stock reinvestment and purchase plan, net of expense of $49	53	1	2,122	—	—	—	—	—	2,123
Employee stock purchase plan	111	1	4,554	—	—			—	4,555
Stock-based compensation activity, net of expense of $11	1,227	12	32,076	(648)	—	(132)	(5,043)	—	26,397
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(1,720)	(1,720)
Other comprehensive income, net of tax of $52,782	—	—	—	—	81,556	—	—	—	81,556
Dividends	—	—	—	(199,359)	—	—	—	—	(199,359)
Balance at December 31, 2013	178,379	$1,784	$6,261,396	$(1,495,698)	$ (34,635)	(132)	$(5,043)	$ 0	$4,727,804

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

(In thousands, except per share data)

Note 1: Organization and Operation

American Water Works Company, Inc. ("AWW") and its subsidiaries (collectively referred to herein as the "Company") is the holding company for regulated and market-based subsidiaries throughout the United States of America and two Canadian provinces. The regulated subsidiaries included in continuing operations provide water and wastewater services as public utilities. These regulated subsidiaries are operationally segregated into 16 U.S. states in which the Company operates regulated utilities. The market-based subsidiaries include various lines of business including Homeowner Services, which provides water and sewer line protection plans for homeowners, and the Contract Operations group, which conducts operation and maintenance of water and wastewater facilities for the U.S. Military, municipalities and the food and beverage industry.

Note 2: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AWW and its subsidiaries. Intercompany balances and transactions between subsidiaries have been eliminated. The Company uses the equity method to report its investments in two joint venture investments in each of which the Company holds a 50% voting interest and cannot exercise control over the operations and policies of the investments. Under the equity method, the Company records its interests as an investment and its percentage share of earnings as earnings or losses of investee.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers benefit plan assumptions; the carrying values of goodwill and other long-lived assets, including regulatory assets; revenue recognition; and accounting for income taxes to be its critical accounting estimates. The Company's significant estimates that are particularly sensitive to change in the near term are amounts reported for pension and other postemployment benefits, contingency-related obligations and goodwill.

Regulation

The Company's regulated utilities are subject to economic regulation by the public utility commissions and the local governments of the states in which they operate (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with authoritative guidance applicable to those companies whose rates are established by or are subject to approval by an independent third-party regulator. Regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a market-based company. These deferred regulatory assets and liabilities are then reflected in the statement of operations in the period in which the costs and credits are reflected in the rates charged for service. (See Note 6)

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $303,798 and $155,221 at December 31, 2013 and 2012, respectively. The 2013 increase was primarily due to the implementation of new billing and asset management systems. The cost of repairs; maintenance, including planned major maintenance activities; and minor replacements of property is charged to maintenance expense as incurred.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Nonutility property consists primarily of buildings and equipment utilized by the Company for internal operations. This property is stated at cost, net of accumulated depreciation calculated using the straight-line method over the estimated useful lives of the as sets, ranging from three to 50 years.

Cash and Cash Equivalents

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Prior to January 1, 2012, the Company had overdraft protection provided by a revolving credit line with PNC Bank, N.A. Bank overdrafts on these accounts were reported as short-term debt and the change in the overdraft balance was reported as financing activities in the accompanying Consolidated Statements of Cash Flows. The Company did not renew this credit line at December 31, 2011. Accordingly, the Company’s outstanding checks on its cash accounts with PNC Bank, N.A. are classified as of January 1, 2012 and forward as other current liabilities in the accompanying Consolidated Balance Sheets, and changes in those accounts are included in operating activities for 2013 and 2012 in the accompanying Consolidated Statements of Cash Flows.

Restricted Funds

Restricted funds primarily represent proceeds from financings for the construction and capital improvement of facilities and deposits for future services under operation and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within 12 months subsequent to year end are classified as current.

Accounts Receivable

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and collateral is generally not required. Also included are market-based trade accounts receivable and non-utility customer receivables of the regulated subsidiaries. Unbilled receivables are accrued when service has been provided but has not been billed to customers.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company’s inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes off accounts when they become uncollectible. (See Note 5)

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Goodwill

Goodwill is primarily associated with the acquisitions of AWW in 2003 and E'town Corporation in 2001 (the "Acquisitions") and has been assigned to reporting units based on the fair values at the date of the Acquisitions. The Regulated Businesses segment is a single reporting unit. In the Market-Based Operations segment, the business is comprised of four reporting units for its market-based services. Goodwill is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. Annual impairment reviews are performed in the fourth quarter of the calendar year, in conjunction with the timing of the completion of the Company's annual strategic business plan.

The Company considers the carrying value of goodwill to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to value goodwill to be appropriate. However, if experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the consolidated financial statements.

No impairment charge was recorded in the Company's continuing operations for the years ended December 31, 2013, 2012 and 2011.

Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the asset and compares that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recorded.

The Company considers the fair value of long-lived assets to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to evaluate the carrying value of long-lived assets are appropriate. However, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the consolidated financial statements.

The key variables to determine value include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties , since they are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The Company holds other investments including investments in privately held companies and investments in joint ventures accounted for using the equity method. The Company's investments in privately held companies and joint ventures are classified as other long-term assets.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which the Company invests, as well as volatility inherent in the external markets. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Advances for Construction and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances for construction ("advances") and contributions in aid of construction ("contributions") from customers, home builders and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Included in other current liabilities at December 31, 2013 and 2012 in the accompanying Consolidated Balance Sheets are estimated refunds of $ 17,308 and $19,698, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. In accordance with applicable regulatory guidelines, some of the Company's subsidiaries do not amortize contributions, and any contribution received remains on the balance sheet indefinitely. Amortization of contributions in aid of construction was $22,363, $20,979 and $18,327 for the years ended December 31, 2013, 2012 and 2011, respectively.

Recognition of Revenues

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are provided, and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period.

The Company has agreements with the United States Government to operate and maintain water and wastewater systems at various military bases pursuant to 50-year contracts ("military agreements"). These contracts also include construction components that are accounted for separately from the operations and management components. The military agreements are subject to periodic price redetermination adjustments and modifications for changes in circumstance. Additionally, the Company has agreements ranging in length from two to 40 years with various industries and municipalities to operate and maintain water and wastewater systems ("O&M agreements"). Revenue from operations and management services are recognized as services are provided. (See Note 15)

Construction Contracts

Revenues from construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred by the regulated utility subsidiaries and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Allowance for Funds Used During Construction (“AFUDC”)

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. The regulated utility subsidiaries record AFUDC to the extent permitted by the Regulators.

Environmental Costs

The Company’s water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $3,300 and $4,400 at December 31, 2013 and 2012, respectively. The accrual relates entirely to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration (“NOAA”) requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 to 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company’s regulatory assets at December 31, 2013 and 2012 include $8,027 and $8,656, respectively, related to the NOAA agreement.

Derivative Financial Instruments

The Company uses derivative financial instruments for purposes of hedging exposures to fluctuations in interest rates. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as a hedge of the fair value of a recognized asset or liability (fair-value hedge) or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge).

Changes in the fair value of a fair-value hedge, along with the gain or loss on the underlying hedged item, are recorded in current-period earnings. The effective portion of gains and losses on cash-flow hedges are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Any ineffective portion of designated hedges is recognized in current-period earnings.

Cash flows from derivative contracts are included in net cash provided by operating activities.

New Accounting Standards

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 pre pared 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 13)

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 or financial position 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.

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 them 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.

Reclassifications

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

Note 3: Acquisitions and Divestitures

Acquisitions

During 2013, the Company closed on 15 acquisitions of various regulated water and wastewater systems for a total aggregate net purchase price of $23,658. Assets acquired (primarily utility plant) totaled $67,403, and liabilities assumed totaled $43,745, including $25,654 of contributions in aid of construction and assumed debt of $12,673. Included in these totals was the Company's November 14, 2013 acquisition of all of the capital stock of Dale Service Corporation ("Dale"), a regulated wastewater utility company, for a total cash purchase price of $5,090 (net of cash acquired of $6,910), plus assumed liabilities. The Dale acquisition added approximately twenty thousand wastewater customers to the Company's existing water services footprint in Northern Virginia. The Dale acquisition was accounted for as a business combination; accordingly, operating results from November 14, 2013 were included in the Company's results of operations. The purchase price was allocated to the net tangible and intangible assets based upon their estimated fair values at the date of acquisition. The Company's regulatory practice has been followed whereby property, plant and equipment (rate base) is considered fair value for business combination purposes. Similarly, regulatory assets and liabilities acquired have been recorded at book value and are subject to regulatory approval where applicable. The acquired debt has been valued in a manner consistent with the Company's Level 3 pre-acquisition debt. (See Note 17) Non-cash assets acquired in the Dale acquisition (primarily utility plant) totaled $40,999; liabilities assumed totaled $35,909, including debt assumed of $12,570 and contributions of $19,163. The pro forma impact of this acquisition would not have been material to the Company's results of operations for the years ended December 31, 2013, 2012 and 2011, respectively.

During 2012, the Company closed on 10 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $44,560. Included in this total was the Company's May 1, 2012 acquisition of all of the capital stock of Aqua New York, Inc. for a total cash purchase price of $36,688 plus assumed liabilities. Assets acquired in the Aqua New York acquisition totaled $102,727, including $59,139 of plant, $27,400 of regulatory assets, and $12,181 of goodwill; liabilities assumed totaled $66,039, including long-term debt of $25,215, $11,885 of regulatory liabilities, $15,424 of deferred taxes, $1,708 of other liabilities, $1,060 of contributions in aid of construction and $9,710 of pension and postretirement welfare liabilities. Assets acquired (primarily utility plant) in the other nine acquisitions during 2012 totaled $12,514; liabilities assumed totaled $4,642.

During 2011, the Company closed on nine acquisitions of regulated water and wastewater systems for an aggregate purchase price of $7,220. The purchase price for each acquisition was allocated to the net tangible and intangible assets based upon their estimated fair values at the acquisition date. Assets acquired totaled $12,919, of which $12,814 was utility plant. Liabilities assumed totaled $4,945, including contributions in aid of construction of $3,847 . The Company recorded gains on acquisitions during 2011 totaling $754.

Divestitures

In January 2012, the Company completed the sale of its Arizona and New Mexico subsidiaries. After post-close adjustments, net proceeds from the sale totaled $458,860, and the Company recorded a pretax loss on sale of $2,198.

In May 2012, the Company completed the sale of its Ohio subsidiary. After post-close adjustments, net proceeds from the sale totaled $102,154, and the Company recorded a pretax loss on sale of $4,095.

In December 2011, the Company completed the sale of its Applied Water Management subsidiary, part of its Market-Based Operations segment. Proceeds from the sale totaled $2,923. The Company recorded a pretax loss on sale of $3,126 in 2011. In 2012, the Company recorded an additional pretax loss of $114 for certain post-close adjustments .

In June 2011, the Company completed the sale of the assets of its Texas subsidiary for proceeds of $6,245. In the first quarter of 2011, the Company recognized an after-tax impairment charge of $552 for parent company goodwill allocated to the Texas subsidiary.

Operating results and the financial position of the five subsidiaries named above are included in the accompanying financial statements as discontinued operations.

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

	Years Ended December 31,		
	2013	2012	2011
Operating revenues	$0	$ 19,377	$173,447
Total operating expenses, net	0	27,630	147,012
Operating income (loss)	0	(8,253)	26,435
Other income (expense), net	0	(168)	(270)
Income (loss) from discontinued operations before tax	0	(8,421)	26,165
Provision for income taxes	0	7,759	21,481
Income (loss) from discontinued operations, net of tax	$0	$(16,180)	$ 4,684

The provision for income taxes of discontinued operations includes the recognition of tax expense related to the difference between the tax basis and book basis of assets upon the sales of the 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.

There were no assets or liabilities of discontinued operations in the accompanying Consolidated Balance Sheets at December 31, 2013 and 2012.

Note 4: Utility Plant

The components of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2013	2012
Water plant			
Land and other non-depreciable assets		$ 132,295	$ 129,953
Sources of supply	11 to 127 Years	659,249	623,015
Treatment and pumping facilities	3 to 101 Years	3,006,140	2,944,178
Transmission and distribution facilities	9 to 116 Years	7,489,208	7,033,958
Services, meters and fire hydrants	9 to 93 Years	2,898,293	2,729,679
General structures and equipment	3 to 112 Years	995,186	865,992
Wastewater plant	2 to 115 Years	683,112	565,894
Construction work in progress		275,202	349,496
		16,138,685	15,242,165
Less accumulated depreciation		3,894,326	3,657,221
		$12,244,359	$11,584,944

Utility plant depreciation expense of continuing operations amounted to $337,653 in 2013, $314,639 in 2012 and $268,987 in 2011. The Company's regulated utility subsidiaries record depreciation in conformity with amounts approved by state regulators after regulatory review of information the Company submits to support its estimates of the assets' remaining useful lives.

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.94 % in 2013 and 2012 and 2.68% in 2011.

Note 5: Allowance for Uncollectible Accounts

The following table summarizes the changes in the Company's allowances for uncollectible accounts:

	2013	2012	2011
Balance at January 1	$(26,874)	$(18,905)	$(21,128)
Amounts charged to expense	(26,953)	(26,701)	(19,952)
Amounts written off	23,914	22,607	24,741
Recoveries of amounts written off	(4,040)	(3,875)	(2,566)
Balance at December 31	$(33,953)	$(26,874)	$(18,905)

Note 6: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Except for income taxes, regulatory assets are excluded from the Company's rate base and generally do not earn a return. The components of regulatory assets at December 31 are as follows:

	2013	2012
Income taxes recoverable through rates	$242,902	$ 242,653
Debt and preferred stock expense	72,349	73,474
Deferred pension expense	109,799	326,578
Deferred other postretirement benefit expense	3,653	167,414
Deferred security costs	139	2,240
Deferred business services project expense	7,763	8,226
Deferred tank painting costs	33,519	31,526
Deferred rate case expense	9,407	11,614
Purchase premium recoverable through rates	60,787	60,241
Environmental remediation recoverable through rates	8,027	8,656
Coastal water project costs	16,826	21,175
San Clemente Dam project costs	44,404	31,403
Removal costs recoverable through rates	126,771	98,541
Other	122,119	115,373
	$858,465	$1,199,114

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the regulatory authorities of full normalization for rate making purposes. Full normalization requires no flow through of tax benefits to customers. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain subsidiaries. These costs will be recovered in future service rates as contributions are made to the pension plan. The Company also has regulatory assets of $ 90,380 and $294,136 at December 31, 2013 and 2012, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Postretirement benefit expense in excess of the amount recovered in rates through 1997 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service and will be recovered as authorized by the Company's regulatory authorities. The Company also has regulatory assets of $3,113 and $166,379 at December 31, 2013 and 2012, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

The costs of additional security measures that were implemented to protect facilities after the terrorist attacks on September 11, 2001 have been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service by certain subsidiaries. These costs are being recovered over periods ranging from five to ten years from the time of regulatory approval.

Business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that began operations in 2001. These costs are recognized in the rates charged for water service by certain subsidiaries.

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from five to 15 years, as authorized by the regulatory authorities in their determination of rates charged for service.

The Company amortizes rate case expenditures over regulatory approved amortization periods, typically three years. Rate case proceeding expenditures probable of future recovery are deferred.

Purchase premium recoverable through rates is primarily the recovery of the acquisition premiums related to an asset acquisition by the Company's California subsidiary during 2002, and acquisitions in 2007 by the Company's New Jersey subsidiary. As authorized for recovery by the California and New Jersey Regulators, these costs are being amortized to operations through November 2048.

Environmental remediation recoverable through rates is the recovery of costs incurred by the Company's California subsidiary under a settlement agreement entered into with NOAA to improve habitat conditions in the Carmel River Watershed.

Coastal water project costs include preliminary costs associated with the studying, testing and design of alternatives to help solve water supply shortages in Monterey, California. Coastal water project costs incurred through December 31, 2010 have been reviewed and approved for recovery through a surcharge. Costs deferred during 2013 , 2012 and 2011 totaled $1,299, $1,987 and $2,528, respectively. The Company believes it is probable that the costs incurred since the last rate review will also be recoverable.

San Clemente Dam project costs represent costs incurred and deferred by the Company's California subsidiary pursuant to its efforts to investigate alternatives to strengthen or remove the dam due to potential earthquake and flood safety concerns. In June 2012, the California Public Utility Commission ("CPUC") issued a decision authorizing implementation of a project to reroute the Carmel River and remove the San Clemente Dam. The project includes the Company's California subsidiary, the California State Conservancy and the National Marine Fisheries Services. Under the order's terms, the CPUC has authorized recovery of all previous pre-construction costs incurred by the Company's subsidiary, and has authorized additional expenditures to be capped at $49,000 for the reroute and dam removal efforts and $2,500 for estimated interim dam safety measures. All pre-construction costs, totaling $24,303, are to be recovered via a surcharge over a 20-year period beginning October 2012; surcharge collections in 2013 and 2012 totaled $3,753 and $894, respectively. Costs deferred in addition to the pre-construction costs totaled $12,394 and $7,994 as of December 31, 2013 and 2012, respectively.

Other regulatory assets include certain deferred employee benefit costs as well as various regulatory balancing accounts which are deferred because the amounts are being recovered in rates or are probable of recovery through rates in future periods.

The components of regulatory liabilities at December 31 are as follows:

	2013	2012
Removal costs recovered through rates	$301,537	$285,901
Other	71,782	78,280
	$373,319	$364,181

Removal costs recovered through rates are retirement costs recovered during the life of the associated assets. In December 2008, the Company's subsidiary in New Jersey, at the direction of the New Jersey Regulator, began to amortize $48,000 of the total balance into operations via straight line amortization through November 2048.

Other regulatory liabilities include legal settlement proceeds, deferred gains, future customer refunds, and various regulatory balancing accounts.

Note 7: Goodwill

The Company's annual impairment reviews are performed as of November 30 of each year, in conjunction with the completion of the Company's annual strategic business plan. At November 30, 2013, the Company's goodwill was $ 1,207,741. The Company also undertakes interim reviews 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.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendments allow an entity first to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption was permitted.

The Company completed a quantitative fair value measurement of its reporting units when performing its goodwill impairment analysis on November 30, 2011. As of the 2011 testing date, a quantitative assessment was made and implied that the fair value of the Company's reporting units was well in excess of their carrying amount and no impairment was required.

The Company decided to adopt the new guidance for its 2012 annual test and applied the qualitative test ("step 0" or "step 0 test") to its reporting units for the annual impairment test performed as of November 30, 2012. No impairment measurement was deemed required.

In the current- year qualitative step 0 test at November 30, 2013, after assessing various events and circumstances that would affect the estimated fair value of the reporting units in its base line November 30, 2011 quantitative test, the Company has determined that it is not required to calculate the fair value of its reporting units at November 30, 2013. The Company has determined that it is more likely than not that its reporting unit fair values are greater than the reporting unit carrying values and no impairment is necessary.

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies or decreases in control premiums. A decline in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in the Company's interest rates, could also result in an impairment charge.

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

	Regulated Unit		Market-Based Units		Consolidated		
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Net
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	12,181	0	0	0	12,181	0	12,181
Balance at December 31, 2012	$3,411,549	$(2,332,670)	$235,990	$(107,619)	$3,647,539	$(2,440,289)	$1,207,250
Goodwill from acquisitions	428	0	0	0	428	0	428
Reclassifications and other activity	86	0	0	0	86	0	86
Balance at December 31, 2013	$3,412,063	$(2,332,670)	$235,990	$(107,619)	$3,648,053	$(2,440,289)	$1,207,764

Note 8: 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 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 December 31, 2013, there were 4,655 shares available for future issuance under the DRIP. The following table summarizes information regarding issuances under the DRIP for the years ended December 31, 2013 and 2012:

	2013	2012
Shares of common stock issued	53	60
Cash proceeds received	$2,171	$2,106

Cash dividend payments made during 2013 and 2012 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
December 31	0.28	0.50
Total dividends paid, three months ended:		
March 31	$ 0	$40,414
June 30	49,744	40,529
September 30	49,810	44,080
December 31	49,896	88,436

On December 13, 2013, the Company declared a quarterly cash dividend of $0.28 per share, payable on March 3, 2014 to all shareholders of record as of February 3, 2014. As of December 31, 2013, the Company had accrued dividends totaling $49,909 included in other current liabilities on the accompanying Consolidated Balance Sheets.

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax:

	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, 2012	$(116,758)	$363	$14,938	$ 3,780	$ (97,677)
Other comprehensive income (loss) before reclassifications	(26,425)	0	0	434	(25,991)
Amounts reclassified from accumulated other comprehensive income	0	176	7,301	0	7,477
Other comprehensive income (loss) for the period	(26,425)	176	7,301	434	(18,514)
Ending balance at December 31, 2012	$(143,183)	$539	$22,239	$ 4,214	$(116,191)
Other comprehensive income (loss) before reclassifications	73,472	0	0	(1,001)	72,471
Amounts reclassified from accumulated other comprehensive income	0	174	8,911	0	9,085
Other comprehensive income (loss) for the period	73,472	174	8,911	(1,001)	81,556
Ending balance at December 31, 2013	$ (69,711)	$713	$31,150	$ 3,213	$ (34,635)

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”). The total aggregate number of shares of common stock that may be issued under the Plan is 15,500. As of December 31, 2013, a total of 9,612 shares are 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 years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Stock options	$ 3,170	$ 3,282	$ 3,182
Restricted stock units	8,718	7,658	6,340
Employee stock purchase plan	586	530	486
Stock-based compensation in operation and maintenance expense	12,474	11,470	10,008
Income tax benefit	(4,865)	(4,473)	(3,903)
After-tax stock-based compensation expense	$ 7,609	$ 6,997	$ 6,105

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2013, 2012 and 2011.

The cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is measured based on the grant date fair value of the awards issued. The value of stock options and restricted stock unit awards at the date of the grant is amortized through expense over the three-year service period. All awards granted in 2013, 2012 and 2011 are classified as equity.

The Company receives a tax deduction based on the intrinsic value of the award at the exercise date for stock options and the distribution date for restricted stock units. For each award, throughout the requisite service period, the Company recognizes the tax benefits, which have been included in deferred tax assets, related to compensation costs. The tax deductions in excess of the benefits recorded throughout the requisite service period are recorded to shareholders' equity or the income statement and are included in the financing section of the statement of cash flows.

The Company stratified its grant populations and used historic employee turnover rates to estimate employee forfeitures. The estimated rate is compared to the actual forfeitures at the end of the period and adjusted as necessary.

Stock Options

In 2013, 2012 and 2011, 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 on January 1 of the year of grant. 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 for grants and the resulting weighted-average grant date fair value per share of stock options granted in the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Dividend yield	2.52%	2.70%	3.25%
Expected volatility	23.50%	28.35%	29.32%
Risk-free interest rate	0.70%	0.78%	1.93%
Expected life (years)	4.3	4.4	4.4
Exercise price	$39.60	$34.14	$27.08
Grant date fair value per share	$ 5.78	$ 6.11	$ 5.14

The Company utilized the "simplified method" to determine the expected stock option life due to insufficient historical experience to estimate the exercise patterns of the stock options granted. The Company began granting stock options at the time of its initial public offering in April 2008. Expected volatility is based on a weighted average of historic volatilities of traded common stock of peer companies (regulated water companies) over the expected term of the stock options and historic volatilities of the Company's common stock during the period it has been publicly traded. The dividend yield is based on the Company's expected dividend payments and the stock price on the date of grant. The risk-free interest rate is the market yield on U.S. Treasury strips with maturities similar to the expected term of the stock options. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Stock options vest over periods ranging from one to three years and expire seven years from the effective date of the grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model.

The value of stock options at the date of the grant is amortized through expense over the requisite service period using the straight-line method. As of December 31, 2013, $ 2,226 of total unrecognized compensation cost related to nonvested stock options is expected to be recognized over the remaining weighted-average period of 1.4 years. The total grant date fair value of stock options vested during the years ended December 31, 2013, 2012 and 2011 was $3,512, $3,219, and $4,578, respectively.

The table below summarizes stock option activity for the year ended December 31, 2013:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2013	2,635	$25.77		
Granted	348	39.60		
Forfeited or expired	(68)	33.69		
Exercised	(860)	23.49		
Options outstanding at December 31, 2013	2,055	$28.80	4.0	$27,660
Exercisable at December 31, 2013	1,187	$24.48	3.1	$21,098

The following table summarizes additional information regarding stock options exercised during the years ended December 31, 201 3, 2012 and 2011:

	2013	2012	2011
Intrinsic value	$15,102	$14,515	$3,026
Exercise proceeds	20,211	22,112	8,991
Income tax benefit	4,383	4,017	511

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 2013, 2012 and 2011, the Company granted restricted stock units , both with and without performance conditions to certain employees under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1 of the year of the grant and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1 of the year of grant (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.

During 2013, 2012 and 2011, the Company granted restricted stock units to non-employee directors under the Plan. The restricted stock units vested on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (a) 15 months after grant date or (b) the participant's separation from service. Because these restricted stock units vested on grant date, the total grant date fair value was recorded in operation and maintenance expense included in the expense table above on the grant date.

Restricted stock units generally vest over periods ranging from one to three years. 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. Restricted stock units granted with market conditions are valued using a Monte Carlo model. Expected volatility is based on historical volatilities of traded common stock of the Company and comparative companies using daily stock prices over the past three years. The expected term is three years and the risk-free interest rate is based on the three-year U.S. Treasury rate in effect as of the measurement date. The following table presents the weighted-average assumptions used in the Monte Carlo simulation and the weighted-average grant date fair values of restricted stock units granted during the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Expected volatility	19.37%	22.47%	29.50%
Risk-free interest rate	0.40%	0.43%	1.24%
Expected life (years)	3	3	3
Grant date fair value per share	$40.13	$37.40	$29.95

The grant date fair value of restricted stock 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 December 31, 2013, $4,877 of total unrecognized compensation cost related to the nonvested restricted stock units is expected to be recognized over the weighted-average remaining life of 1.4 years. The total grant date fair value of restricted stock units vested during the years ended December 31, 2013, 2012 and 2011 was $8,891, $4,191 and $2,040, respectively.

The table below summarizes restricted stock unit activity for the year ended December 31, 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	(23)	37.51
Cancelled	(19)	21.98
Non-vested total at December 31, 2013	539	$36.27

The following table summarizes additional information regarding restricted stock units distributed during the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Intrinsic value	$13,983	$6,159	$2,068
Income tax benefit	2,049	799	99

If dividends are paid with respect to shares of the Company's common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $648, $1,168 and $921 to retained earnings during the years ended December 31, 2013, 2012 and 2011, respectively.

Employee Stock Purchase Plan

Under the Company's Nonqualified Employee Stock Purchase Plan ("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 December 31, 2013 there were 1,363 shares of common stock reserved for issuance under the ESPP. The Company's ESPP is considered compensatory. During the years ended December 31, 2013, 2012 and 2011, the Company issued 111, 118 and 121 shares, respectively, under the ESPP.

Note 9: Preferred Stock Without Mandatory Redemption Requirements

Certain preferred stock agreements do not require annual sinking fund payments or redemption except at the option of the subsidiaries . The Company had preferred stock yielding 4.50% totaling $1,720 outstanding at December 31, 2012. The Company elected to redeem that amount during 2013, accordingly none were outstanding at December 31, 2013.

The Company reflects its subsidiaries' preferred stock without mandatory redemption requirements, which represents the Company's noncontrolling interest, in the total stockholders' equity section of the accompanying Consolidated Balance Sheets. The dividends on these preferred shares have not been reflected as income attributable to noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income as the total amount of these dividends is not considered material. The dividends issued were $19 for 2013, $153 for 2012 and $224 for 2011. The amounts have been included as a component of other income (expenses) in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Note 10: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures of the regulated subsidiaries. The components of long-term at December 31 are:

	Rate	Weighted Average Rate	Maturity Date	2013	2012
Long-term debt of American Water Capital Corp. ("AWCC") (a)					
Private activity bonds and government funded debt					
Fixed rate	2.30%-6.75%	5.63%	2018-2040	$ 330,732	$ 322,610
Senior notes					
Fixed rate	3.85%-8.27%	5.69%	2016-2042	3,312,761	3,389,399
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate (b)	0.00%-6.20%	4.68%	2014-2041	863,716	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%	8.60%	2019-2036	18,902	20,552
Notes payable and other (c)	12.17%	12.17%	2026	913	1,272
Long-term debt				5,203,524	5,278,302
Unamortized debt, net (d)				35,984	39,272
Fair value adjustment to interest rate hedge				4,724	7,715
Total long-term debt				$5,244,232	$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 at December 31, 2013 $11,920 of variable rate debt with variable-to-fixed rate interest swaps paying between 3.93% and 4.72% per annum. This debt was assumed via acquisitions in 2013 (see below).

(c) Includes capital lease obligations of $913 and $1,049 at December 31, 2013 and 2012, respectively.

(d) Primarily fair value adjustments previously recognized in acquisition purchase accounting.

All $676,500 of the subsidiaries' mortgage bonds and $790,817 of the $863,716 total subsidiaries' private activity bonds and government funded debt are collateralized by utility plant.

Long-term debt indentures contain a number of covenants that, among other things, limit, subject to certain exceptions, the Company from issuing debt secured by the Company's assets. Certain long term notes require the Company to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2013 was 0. 55 to 1.00. In addition, the Company has $1,282,387 of notes which include the right to redeem the notes at par in whole or in part from time to time subject to certain restrictions.

The future sinking fund payments and maturities are as follows:

Year	Amount
2014	$ 14,174
2015	60,655
2016	52,901
2017	572,314
2018	473,648
Thereafter	$4,029,832

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp.	Senior notes—fixed rate	3.85%	2024	$400,000
American Water Capital Corp. (1)	Private activity bonds and government funded debt—fixed rate	2.30%-2.90%	2021-2030	8,122
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.59-2.41%	2031-2033	2,737
Total issuances				$410,859

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(1) Included in the issuance amounts for AWCC private activity bonds and government funded debt above was $6,702, which was initially kept in Trust pending the Company's certification that it has incurred qualifying capital expenditures. These issuances have been presented as non-cash in the accompanying Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of these funds by the applicable Trust are reflected as the release of restricted funds and are included in investing activities in the accompanying Consolidated Statements of Cash Flows.

The Company incurred debt issuance costs of $3,377 related to the above issuances. The Company also assumed debt of $12,673 via acquisitions during 2013.

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

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp. (2)	Senior notes—fixed rate	5.39%-10.00%	2013-2017	$476,638
Other subsidiaries (3)	Private activity bonds and government funded debt—fixed rate	0.00%-5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds—fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Notes payable and other			359
Total retirements and redemptions				$498,310

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(2) In September 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, which were satisfied during the fourth quarter of 2013. At that time, the Company repurchased $225,800 in aggregate principal amount

of Notes that were validly tendered. The Company paid $271,798 to effect the tender, which, in addition to the principal, included $6,603 of accrued interest, a repurchase premium of $39,395, write-off of unamortized debt issuance costs of $525 and transaction fees of $663. The sum of the repurchase premium, the debt issuance amortization and transaction fees equaled the loss on debt extinguishment of $40,583, which is disclosed separately on the accompanying Consolidated Statement of Operations.

(3) Includes $3,565 of non-cash defeasance via the use of restricted funds.

Interest, net includes interest income of approximately $11,753 , $12,652 and $10,942 in 2013, 2012 and 2011, respectively.

One of the principal market risks to which the Company is exposed is changes in interest rates. In order to manage the exposure, the Company follows risk management policies and procedures, including the use of derivative contracts such as swaps. The Company reduces exposure to interest rates by managing commercial paper and debt maturities. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments. The derivative contracts entered into are for periods consistent with the related underlying exposures. The Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company minimizes the counterparty credit risk on these transactions by dealing only with leading, credit-worthy financial institutions having long-term credit ratings of "A" or better.

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 as of December 31, 2013 and 2012 and the line item in the Consolidated Balance Sheet in which such amount is recorded:

Balance sheet classification	**2013**	**2012**
Regulatory and other long-term assets		
Other	$4,776	$7,909
Long-term debt		
Long-term debt	4,724	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 for the years ended December 31 as follows:

Income Statement Classification	**2013**	**2012**	**2011**
Interest, net			
Gain (loss) on swap	$(3,133)	$ 2,085	$ 6,722
(Loss) gain on borrowing	2,991	(1,604)	(6,455)
Hedge ineffectiveness	(142)	481	267

Note 11: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $630,307 (net of discount of $193) and $269,985 (net of discount of $15) at December 31, 2013 and 2012, respectively. Included in the 2013 balance was $ 221,000 of borrowings with maturities greater than three months, all of which will mature during the first quarter of 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 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.

AWCC had the following available capacity under its commercial paper program at December 31:

	2013	2012
Commercial paper program	$1,000,000	$700,000
Commercial paper program available capacity	369,500	430,000

At December 31, AWCC had the following sub-limits and available capacity under each applicable credit facility:

	2013	2012
Letter of credit sublimit	$150,000	$150,000
Letter of credit available capacity	108,215	117,137

At December 31, 2013, the Company had $ 41,785 of outstanding letters of credit, all of which were issued under the revolving credit facility noted above. At December 31, 2012, the Company had $34,148 of outstanding letters of credit, $32,863 of which was issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2013 and 2012:

	2013	2012
Average borrowings	$ 432,064	$277,952
Maximum borrowings outstanding	1,129,250	534,700
Weighted average interest rates, computed on a daily basis	0.37%	0.49%
Weighted average interest rates, at December 31	0.36%	0.46%

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2013 was 0.55 to 1.00.

None of the Company’s borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company’s credit facility.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so . In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on the Company’s net position with the counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company’s situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company’s results of operations, financial position or cash flows.

Note 12: General Taxes

Components of general tax expense from continuing operations for the years ended December 31 are as follows:

	2013	2012	2011
Gross receipts and franchise	$ 96,044	$ 92,612	$ 90,674
Property and capital stock	94,448	84,513	77,330
Payroll	31,375	32,724	31,705
Other general	12,775	11,363	10,769
	$234,642	$221,212	$210,478

Note 13: Income Taxes

Components of income tax expense from continuing operations for the years ended December 31 are as follows:

	2013	2012	2011
State income taxes:			
Current	$ 7,202	$ 26,604	$ (7,440)
Deferred			
Current	(405)	(280)	(171)
Non-current	26,821	24,256	44,576
	$ 33,618	$ 50,580	$ 36,965
Federal income taxes:			
Current	$ (19,995)	$ 31,482	$ 12,239
Deferred			
Current	(1,324)	(2,031)	(314)
Non-current	225,408	178,495	151,403
Amortization of deferred investment tax credits	(1,501)	(1,518)	(1,542)
	202,588	206,428	161,786
	$236,206	$257,008	$198,751

A reconciliation of income tax expense from continuing operations at the statutory federal income tax rate to actual income tax expense for the years ended December 31 is as follows:

	2013	2012	2011
Income tax at statutory rate	$211,914	$220,940	$176,288
Increases (decreases) resulting from:			
State taxes, net of federal taxes	21,852	32,877	24,027
Change in valuation allowance	(455)	143	(160)
Flow through differences	3,217	3,032	2,895
Amortization of deferred investment tax credits	(1,501)	(1,518)	(1,542)
Subsidiary preferred dividends	584	634	668
Other, net	595	900	(3,425)
Actual income tax expense	$236,206	$257,008	$198,751

The following table provides the components of the net deferred tax liability from continuing operations at December 31:

	2013	2012
Deferred tax assets:		
Advances and contributions	$ 510,122	$ 485,815
Deferred investment tax credits	10,027	10,610
Other postretirement benefits	107,773	100,301
Tax losses and credits	265,640	229,423
Pension benefits	122,143	113,919
Unamortized debt discount, net	20,249	21,711
Other	23,888	22,835
	1,059,842	984,614
Valuation allowance	(13,555)	(19,520)
	$ 1,046,287	$ 965,094
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	$ 2,478,617	$ 2,168,680
Income taxes recoverable through rates	81,135	82,400
Deferred security costs	58	921
Deferred business services project expenses	4,584	4,580
Deferred other postretirement benefits	65,071	57,895
Deferred pension benefits	169,336	102,847
Other	69,574	93,284
	2,868,375	2,510,607
	$(1,822,088)	$(1,545,513)

At December 31, 2013 and 2012, the Company recorded federal net operating loss (“NOL”) carryforwards of $1,182,075 and $1,047,786, respectively. The 2013 balance includes $16,484 of windfall tax benefits on stock-based compensation that will not be recorded to equity until the benefit is realized. The Company believes the federal NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company evaluated its ability to fully utilize the existing federal NOL carryforwards in light of the RWE divestiture in November 2009. Under Internal Revenue Code (“I.R.C.”) Section 382, an ownership change occurs if there is a greater than fifty percent (50%) change in equity ownership of a company over a three-year period determined by reference to the ownership of persons holding five percent (5%) or more of that company’s equity securities. If a company undergoes an ownership change as defined by I.R.C. Section 382, the company’s ability to utilize its pre-change NOL carryforwards to offset post-change income may be limited.

The Company believes that the limitation imposed by I.R.C. Section 382 generally should not preclude use of its federal NOL carryforwards, assuming the Company has sufficient taxable income in future carryforward periods to utilize those NOL carryforwards. The Company’s federal NOL carryforwards do not begin expiring until 2028.

At December 31, 2013 and 2012, the Company had state NOLs of $ 628,049 and $663,429, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOL carryforwards will expire between 2014 and 2033.

At December 31, 2013 and 2012, the Company had Canadian NOL carryforwards of $ 6,323 and $5,703, respectively. The majority of these carryforwards are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The Canadian NOL carryforwards will expire between 2014 and 2033.

The Company had capital loss carryforwards for federal income tax purposes of $3,844 and $4,357 at December 31, 2013 and 2012, respectively. The Company has recognized a full valuation allowance for the capital loss carryforwards because the Company does not believe these losses are more likely than not to be recovered.

The Company files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local or non-U.S income tax examinations by tax authorities for years before 2007.

The Company has state income tax examinations in progress and does not expect material adjustments to result.

The Patient Protection and Affordable Care Act (the "PPACA") became law on March 23, 2010, and the Health Care and Education Reconciliation Act of 2010 became law on March 30, 2010, which makes various amendments to certain aspects of the PPACA (together, the "Acts"). The PPACA effectively changes the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. The Acts effectively make the subsidy payments taxable in tax years beginning after December 31, 2012 and as a result, the Company followed its original accounting for the underfunded status of the other postretirement benefits for the Medicare Part D adjustment and recorded a reduction in deferred tax assets and an increase in its regulatory assets amounting to $6,241 and $6,432 at December 31, 2013 and 2012, respectively.

The following table summarizes the changes in the Company's gross liability, excluding interest and penalties, for unrecognized tax benefits:

Balance at January 1, 2012	$158,578
Increases in current period tax positions	40,620
Decreases in prior period measurement of tax positions	(18,205)
Balance at December 31, 2012	$180,993
Increases in current period tax positions	27,229
Decreases in prior period measurement of tax positions	(30,275)
Balance at December 31, 2013	$177,947

During the second quarter of 2013, the Company adopted updated income tax guidance, and as a result, reclassified as of December 31, 2012 $74,360 of unrecognized tax benefit from other long-term liabilities to deferred income taxes to conform to the current presentation in the accompanying Consolidated Balance Sheets. The total balance in the table above does not include interest and penalties of $242 and $260 as of December 31, 2013 and 2012, respectively, which is recorded as a component of income tax expense. The majority of the increased tax position is attributable to temporary differences. The increase in 2013 current period tax positions related primarily to the Company's change in tax accounting method filed in 2008 for repair and maintenance costs on its utility assets. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. If the Company sustains all of its positions at December 31, 2013 and 2012, an unrecognized tax benefit of $7,439 and $7,532, respectively, excluding interest and penalties, would impact the Company's effective tax rate.

The following table summarizes the changes in the Company's valuation allowance:

Balance at January 1, 2011	$23,788
Increases in current period tax positions	1,525
Decreases in current period tax positions	(3,734)
Balance at December 31, 2011	$21,579
Increases in current period tax positions	0
Decreases in current period tax positions	(2,059)
Balance at December 31, 2012	$19,520
Increases in current period tax positions	0
Decreases in current period tax positions	(5,965)
Balance at December 31, 2013	$13,555

Included in 2013 is a discrete tax benefit totaling $2,979 associated with an entity re-organization within the Company's Market-Based segment that allowed for the utilization of state net operating loss carryforwards and the release of an associated valuation allowance.

Note 14: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering eligible employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for all employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. The Company does not participate in a multiemployer plan.

The Company's pension funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, the Company will consider additional contributions if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006. The Company may also consider increased contributions, based on other financial requirements and the plans' funded position. Pension plan assets are invested in a number of actively managed and indexed investments including equity and bond mutual funds, fixed income securities, guaranteed interest contracts with insurance companies and real estate investment trusts ("REITs").

Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. (See Note 6)

The Company also has unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains other postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company's policy is to fund other postretirement benefit costs for rate-making purposes. Assets of the plans are invested in equity mutual funds, bond mutual funds and fixed income securities.

The obligations of the plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future, the investment strategy is to allocate a significant percentage of assets to equities, which the Company believes will provide the highest return over the long-term period. The fixed income assets are invested in long duration debt securities and may be invested in fixed income instruments, such as futures and options, in order to better match the duration of the plan liability.

The Company periodically conducts asset liability studies to ensure the investment strategies are aligned with the profile of the plans' obligations.

None of the Company's securities are included in pension or other postretirement benefit plan assets.

The Company uses fair value for all classes of assets in the calculation of market-related value of plan assets by applying the fair value of the asset classes at the balance sheet date times the projected returns for that asset class.

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted-average credit rating of A or better by Standard & Poor's.

The investment policies' objectives are focused on reducing the volatility of the plans' funding status over a long term horizon.

The fair values and asset allocations of pension plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Cash	—	$ 12,844	$ 12,844	$ —	$ —	—
Equity securities:						
U.S. large cap	24%	455,068	455,068	—	—	33%
U.S. small cap value	8%	139,571	139,571	—	—	10%
International	20%	295,226	615	294,611	—	21%
Fixed income securities:	40%					35%
U.S. Treasury and government bonds	—	81,200	76,222	4,978	—	—
Corporate bonds	—	209,500	—	209,500	—	—
Mortgage-backed securities	—	116,956	—	116,956	—	—
Long duration bond fund	—	5,177	5,177	—	—	—
Guaranteed annuity contracts	—	52,772	—	8,947	43,825	—
Real estate	6%	—	—	—	—	—
REITs	2%	15,307	—	15,307	—	1%
Total	100%	$1,383,621	$689,497	$650,299	$43,825	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) where transfers in (out) represent assets sold and benefit payments made during the year:

	Level 3
Balance, January 1, 2013	$ 173,625
Actual return on assets	10,384
Transfers in (out)	(140,184)
Balance, December 31, 2013	$ 43,825

The fair values and asset allocations of pension plan assets at December 31, 2012, by asset category, follow:

Asset Category	Target Allocation 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2012
Cash	—	$ 9,107	$ 9,107	$ —	$ —	—
Equity securities:						
U.S. large cap	29%	411,805	411,805	—	—	36%
U.S. small cap value	8%	139,389	139,389	—	—	12%
International	20%	255,126	—	128,953	126,173	22%
Fixed income securities:	35%					30%
U.S. Treasury and government bonds	—	62,311	60,558	1,753	—	—
Corporate bonds	—	73,254	—	73,254	—	—
Mortgage-backed securities	—	144,100	—	144,100	—	—
Long duration bond fund	—	5,690	5,690	—	—	—
Guaranteed annuity contracts	—	56,915	—	9,463	47,452	—
REITs	8%	—	—	—	—	—
Total	100%	$1,157,697	$626,549	$357,523	$173,625	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) where transfers in (out) represent benefit payments made during the year:

	Level 3
Balance, January 1, 2012	$148,574
Actual return on assets	28,420
Transfers in (out)	(3,369)
Balance, December 31, 2012	$173,625

The Company's other postretirement benefit plans are partially funded and the assets are held under various trusts. The investments and risk mitigation strategies for the plans are tailored specifically for each trust. In setting new strategic asset mixes, consideration is given to the likelihood that the selected asset allocation will effectively fund the projected plan liabilities and the risk tolerance of the Company. The Company periodically updates the long-term, strategic asset allocations and uses various analytics to determine the optimal asset allocation. Considerations include plan liability characteristics, liquidity characteristics, funding requirements, expected rates of return and the distribution of returns.

In June 2012, the Company implemented a de-risking strategy for the medical bargaining trust within the plan to minimize volatility. As part of the de-risking strategy, the Company revised the asset allocations to increase the matching characteristics of assets relative to liabilities. The initial de-risking asset allocation for the plan was 60% return-generating assets and 40% liability-driven assets. The investment strategies and policies for the plan reflect a balance of liability driven and return-generating considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset—liability matching, asset diversification and hedging. The fixed income target asset allocation matches the bond-like and long-dated nature of the postretirement liabilities. Assets are broadly diversified within asset classes to achieve risk-adjusted returns that in total lower asset volatility relative to the liabilities. The Company assesses the investment strategy regularly to ensure actual allocations are in line with target allocations as appropriate. Strategies to address the goal of ensuring sufficient assets to pay benefits include target allocations to a broad array of asset classes and, within asset classes strategies are employed to provide adequate returns, diversification and liquidity.

The assets of the Company’s other trusts within the other postretirement benefit plans have been primarily invested in equities and fixed income index funds. The assets under the various other postretirement benefit trusts are invested differently based on the assets and liabilities of each trust. The obligations of the other postretirement benefit plans are dominated by obligations for the medical bargaining trust. Thirty-nine percent and five percent of the total postretirement plan benefit obligations are related to the medical non-bargaining and life insurance trusts, respectively. Because expected benefit payments related to the benefit obligations are so far into the future, and the size of the medical non-bargaining and life insurance trusts’ obligations are large compared to each trusts’ assets, the investment strategy is to allocate a significant portion of the assets’ investment to equities, which the Company believes will provide the highest long-term return and improve the funding ratio.

The Company engages third party investment managers for all invested assets. Managers are not permitted to invest outside of the asset class (e.g., fixed income, equity, alternatives) or strategy for which they have been appointed. Investment management agreements and recurring performance and attribution analysis are used as tools to ensure investment managers invest solely within the investment strategy they have been provided. Futures and options may be used to adjust portfolio duration to align with a plan’s targeted investment policy.

In order to minimize asset volatility relative to the liabilities, a portion of plan assets is allocated to fixed income investments that are exposed to interest rate risk. Increases in interest rates generally will result in a decline in the value of fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities. Within equities, risk is mitigated by constructing a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process.

Actual allocations to each asset class vary from target allocations due to periodic investment strategy updates, market value fluctuations, the length of time it takes to fully implement investment allocation, and the timing of benefit payments and contributions. The asset allocation is rebalanced on a quarterly basis , if necessary.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Bargain VEBA:						
Cash	—	$ 689	$ 689	$ —	—	—
Equity securities:						
U.S. large cap	18%	72,108	72,108	—	—	19%
U.S. small cap value	7%	26,574	26,574	—	—	7%
International	15%	55,888	55,888	—	—	15%
Fixed income securities:	60%					59%
U.S. Treasury securities and government bonds	—	95,010	91,578	3,432	—	—
Corporate bonds	—	117,843	—	117,843	—	—
Long duration bond fund	—	2,043	2,043	—	—	—
U.S. high yield bond fund	—	—	—	—	—	—
International bond fund	—	—	—	—	—	—
Future and option contracts (a)	—	620	620	—	—	—
Total bargain VEBA	100%	$370,775	$249,500	$121,275	—	100%
Non-bargain VEBA:						
Cash	—	$ 3,451	3,451	$ —	—	—
Equity securities:						
U.S. large cap	21%	41,430	41,430	—	—	43%
U.S. small cap value	21%	—	—	—	—	0%
International	28%	27,739	27,739	—	—	29%
Fixed income securities:						
Core fixed income bond fund	30%	23,563	23,563	—	—	28%
Total non-bargain VEBA	100%	$ 96,183	$ 96,183	$ —	—	100%
Life VEBA:						
Cash	—	$ 27	$ 27	$ —	—	—
Equity securities:						
U.S. large cap	70%	5,527	5,527	—	—	71%
Fixed income securities:						
Core fixed income bond fund	30%	2,206	2,206	—	—	29%
Total life VEBA	100%	$ 7,760	$ 7,760	$ —	—	100%
Total	100 %	$474,718	$353,443	$121,275	—	100 %

(a) Includes cash for margin requirements.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2012, by asset category, follow:

Asset Category	Target Allocation 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2012
Bargain Veba:						
Cash	—	$ 1,140	$ 1,140	$ —	—	—
Equity securities:						
U.S. large cap	16%	59,054	59,054	—	—	16%
U.S. small cap value	8%	26,965	26,965	—	—	8%
International	21%	77,837	38,647	39,190	—	21%
Emerging markets	7%	25,505	—	25,505	—	7%
Fixed income securities:	45%					45%
U.S. Treasury securities and government bonds	—	58,959	42,332	16,627	—	—
Corporate bonds	—	72,834	—	72,834	—	—
Long duration bond fund	—	1,273	1,273	—	—	—
US high yield bond fund	—	16,397	—	16,397	—	—
International bond fund	—	13,950	—	13,950	—	—
Future and option contracts (a)	—	1,410	1,410	—	—	—
REITs	3%	11,402	—	11,402	—	3%
Total bargain VEBA	100%	$366,726	$170,821	$195,905	—	100%
Non-bargain VEBA:						
Cash	—	$ 855	$ 855	$ —	—	1%
Equity securities:						
U.S. large cap	100%	58,436	58,436	—	—	99%
Total non-bargain VEBA	100%	$ 59,291	$ 59,291	$ —	—	100%
Life VEBA:						
Cash	—	$ 410	$ 410	$ —	—	6%
Equity securities:						
U.S. large cap	100%	6,813	6,813	—	—	94%
Total Life VEBA	100%	$ 7,243	$ 7,243	$ —	—	100%
Total	100%	$433,260	$237,355	$195,905	—	100%

(a) Includes cash for margin requirements.

Valuation Techniques Used to Determine Fair Value

Cash—Cash and investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash and are included in the recurring fair value measurements hierarchy as Level 1.

Equity securities—F or equity securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, that the Company is able to independently corroborate. Equity securities are valued based on quoted prices in active markets and categorized as Level 1. Certain equities, such as international securities, are invested in commingled funds. These funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since net asset value is not directly observable for the commingled funds, they are categorized as Level 2.

Fixed-income securities—The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets that the Company can corroborate. The fair values of corporate bonds, mortgage backed securities, certain government bonds and a guaranteed annuity contract are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, and have been categorized as Level 2 because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate. Certain other guaranteed annuity contracts are categorized as Level 3 because the investments are not publicly quoted. The fund administrator values the fund using the net asset value per fund share, derived from the quoted prices in active markets of the underlying securities. Since these valuation inputs are not highly observable, these contracts have been categorized as Level 3. Exchange-traded future and option positions are reported in accordance with changes in daily variation margins that are settled daily. Exchange-traded options and futures, for which market quotations are readily available, are valued at the last reported sale price or official closing price on the primary market or exchange on which they are traded and are classified as Level 1.

REITs—REITs are invested in commingled funds. Commingled funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since the net asset value is not directly observable for the commingled funds, they are categorized as Level 2.

The following table provides a rollforward of the changes in the benefit obligation and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Change in benefit obligation				
Benefit obligation at January 1	$1,621,244	$1,401,954	$ 687,082	$ 620,366
Service cost	37,872	34,209	15,282	14,207
Interest cost	68,096	70,866	28,700	31,570
Plan participants' contributions	—	—	2,514	2,394
Amendments	—	—	—	(1,758)
Actuarial (gain) loss	(180,688)	178,267	(148,410)	43,321
Divestitures	—	(73)	—	(94)
Curtailments	—	(3,460)	—	—
Settlements	—	(14,701)	—	—
Gross benefits paid	(52,392)	(45,818)	(25,263)	(24,910)
Federal subsidy	—	—	2,018	1,986
Benefit obligation at December 31	$1,494,132	$1,621,244	$ 561,923	$ 687,082
Change in Plan Assets				
Fair value of plan assets at January 1	$1,157,697	$ 981,068	$ 433,260	$ 382,670
Actual return on plan assets	208,821	138,560	36,202	42,981
Employer contributions	69,495	99,408	28,005	30,002
Plan participants' contributions	—	—	2,514	2,394
Settlements	—	(10,799)	—	—
Divestitures	—	(4,722)	—	123
Benefits paid	(52,392)	(45,818)	(25,263)	(24,910)
Fair value of plan assets at December 31	$1,383,621	$1,157,697	$ 474,718	$ 433,260
Funded status at December 31	$ (110,511)	$ (463,547)	$ (87,205)	$(253,822)
Amounts recognized in the balance sheet consist of:				
Noncurrent asset	$ —	$ —	$ 1,271	$ 377
Current liability	(1,969)	(1,900)	(57)	(52)
Noncurrent liability	(108,542)	(461,647)	(88,419)	(254,147)
Net amount recognized	$ (110,511)	$ (463,547)	$ (87,205)	$(253,822)

The following table provides the components of the Company's accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Net actuarial loss	$145,376	$483,626	$ 17,632	$183,087
Prior service cost (credit)	4,418	5,142	(14,519)	(16,708)
Net amount recognized	$149,794	$488,768	$ 3,113	$166,379
Regulatory assets	$ 90,380	$294,136	$ 3,113	$166,379
Accumulated other comprehensive income	59,414	194,632	—	—
	$149,794	$488,768	$ 3,113	$166,379

At December 31, 2013 and 2012, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2013	2012
Projected benefit obligation	$1,494,000	$1,621,000
Fair value of plan assets	1,384,000	1,158,000

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2013	2012
Accumulated benefit obligation	$ 43,000	$1,472,000
Fair value of plan assets	17,000	1,158,000

The accumulated postretirement benefit obligation exceeds plan assets for all of the Company's other postretirement benefit plans.

In August 2006, the Pension Protection Act ("PPA") was signed into law in the U.S. The PPA replaces the funding requirements for defined benefit pension plans by requiring that defined benefit plans contribute to 100% of the current liability funding target over seven years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being "at risk" and additional funding requirements and benefit restrictions may apply. The PPA was effective for the 2008 plan year with short-term phase-in provisions for both the funding target and at-risk determination. The Company's qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the PPA. The Company is proactively monitoring the plan's funded status and projected contributions under the law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for the qualified defined benefit pension plan are determined by government regulations and not by accounting pronouncements. The Company plans to contribute amounts at least equal to the greater of the minimum required contributions or the normal cost in 2014 to the qualified pension plans. The Company plans to contribute to its 2014 other postretirement benefit cost for rate-making purposes.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

	Pension Benefits	Other Benefits
2014 expected employer contributions		
To plan trusts	$37,191	$12,137
To plan participants	1,970	81

The Company made 2014 contributions to fund pension benefits and other benefits of $7,680 and $3,034, respectively, through February 2014.

The following table reflects the net benefits expected to be paid from the plan assets or the Company's assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2014	$ 64,519	$ 26,682	$ 2,170
2015	70,453	29,299	2,335
2016	75,924	31,837	2,514
2017	81,491	34,529	2,705
2018	86,616	37,265	2,890
2019—2023	499,770	215,648	17,804

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits			Other Benefits		
	2013	2012	2011	2013	2012	2011
Weighted-average assumptions used to determine December 31 benefit obligations						
Discount rate	5.12%	4.17%	5.02%	5.10%	4.16%	5.05%
Rate of compensation increase	3.15%	3.19%	3.25%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 7.00% in 2013 to 5% in 2019+	graded from 7.25% in 2012 to 5% in 2019+	graded from 7.50% in 2012 to 5% in 2019+
Weighted-average assumptions used to determine net periodic cost						
Discount rate	4.17%	5.02%	5.32%	4.16%	5.05%	5.27%
Expected return on plan assets	7.49%	7.75%	7.90%	6.99%	7.41%	7.60%
Rate of compensation increase	3.19%	3.25%	3.50%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 7.25% in 2013 to 5% in 2019+	graded from 7.50% in 2012 to 5% in 2019+	graded from 8.00% in 2011 to 5% in 2017+

N/A—Assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. At year-end 2011, the Company began using an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a universe containing the majority of U.S.-issued AA-graded corporate bonds, all of which were non callable (or callable with make-whole provisions). Historically, for each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return, prior to administrative and investment management fees, for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company's pension expense increases as the expected return on assets decreases.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	**One-Percentage-Point Decrease**
Effect on total of service and interest cost components	$ 7,367	$ (5,974)
Effect on other postretirement benefit obligation	$72,238	$(60,261)

The following table provides the components of net periodic benefit costs for the years ended December 31:

	2013	2012	2011
Components of net periodic pension benefit cost			
Service cost	$ 37,872	$ 34,209	$ 33,641
Interest cost	68,096	70,866	69,047
Expected return on plan assets	(88,429)	(79,272)	(72,109)
Amortization of:			
Prior service cost (credit)	724	723	722
Actuarial (gain) loss	37,170	29,636	18,551
Settlement loss	—	7,135	—
Net periodic pension benefit cost	$ 55,433	$ 63,297	$ 49,852
Other changes in plan assets and benefit obligations recognized in other comprehensive income, net of tax			
Amortization of prior service credit (cost)	$ (174)	$ (176)	$ (175)
Current year actuarial (gain) loss	(73,472)	26,425	30,497
Amortization of actuarial gain (loss)	(8,911)	(7,301)	(4,504)
Total recognized in other comprehensive income	$(82,557)	$ 18,948	$ 25,818
Total recognized in net periodic benefit cost and comprehensive income	$(27,124)	$ 82,245	$ 75,670
Components of net periodic other postretirement benefit cost			
Service cost	$ 15,282	$ 14,207	$ 13,938
Interest cost	28,700	31,570	31,219
Expected return on plan assets	(30,285)	(28,711)	(28,779)
Amortization of:			
Prior service cost (credit)	(2,189)	(1,915)	(1,924)
Actuarial (gain) loss	11,128	9,537	7,133
Other	—	(696)	—
Net periodic other postretirement benefit cost	$ 22,636	$ 23,992	$ 21,587

The Company's policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements.

The estimated amounts that will be amortized from accumulated other comprehensive income and regulatory assets into net periodic benefit cost in 2014 are as follows:

	Pension Benefits	Other Benefits
Actuarial (gain) loss	$(131)	$ (81)
Prior service cost (credit)	724	(2,189)
Total	$ 593	$(2,270)

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. Plan expenses totaled $8,054 for 2013, $8,091 for 2012 and $7,273 for 2011, respectively. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 15: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2013, the Company has accrued approximately $ 3,400 as probable costs and it is reasonably possible that additional losses could range up to $30,400 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company's military services agreements expire between 2051 and 2060 and have remaining performance commitments as measured by estimated remaining contract revenue of $ 1,988,000 at December 31, 2013. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company's Operations and Maintenance agreements with municipalities and other customers expire between 2014 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $928,000 at December 31, 2013. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legal and binding contractual obligations amounted to $ 263,766 at December 31, 2013.

The Company's regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. The Company's subsidiaries' purchased water expense under these types of agreements amounted to approximately $114,471, $115,426 and $104,384 during the years ended December 31, 2013, 2012 and 2011, respectively. The estimated annual commitment related to the minimum quantities of water purchased is expected to approximate $54,288 in 2014, $54,751 in 2015, $50,864 in 2016, $44,043 in 2017, $42,974 in 2018 and $468,523 thereafter.

Note 16: Earnings per Common Share

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

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

	Years Ended December 31,		
	2013	2012	2011
Basic			
Income from continuing operations	$369,264	$374,250	$304,929
Income (loss) from discontinued operations, net of tax	0	(16,180)	4,684
Net income	369,264	358,070	309,613
Less: Distributed earnings to common shareholders	150,038	214,541	158,708
Less: Distributed earnings to participating securities	60	86	68
Undistributed earnings	219,166	143,443	150,837
Undistributed earnings allocated to common shareholders	219,082	143,385	150,772
Undistributed earnings allocated to participating securities	84	58	65
Total income from continuing operations available to common shareholders, basic	$369,120	$374,106	$304,796
Total income available to common shareholders, basic	$369,120	$357,926	$309,480
Weighted-average common shares outstanding, basic	177,814	176,445	175,484
Basic earnings per share: (a)			
Income from continuing operations	$ 2.08	$ 2.12	$ 1.74
Income (loss) from discontinued operations, net of tax	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.08	$ 2.03	$ 1.76

(a) Amounts may not sum due to rounding.

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

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

	Years Ended December 31,		
	2013	2012	2011
Diluted			
Total income from continuing operations available to common shareholders, basic	$369,120	$374,106	$304,796
Income (loss) from discontinued operations, net of tax	0	(16,180)	4,684
Total income available to common shareholders, basic	369,120	357,926	309,480
Undistributed earnings for participating securities	84	58	65
Total income from continuing operations available to common shareholders, diluted	$369,204	$374,164	$304,861
Total income available to common shareholders, diluted	$369,204	$357,984	$309,545
Weighted-average common shares outstanding, basic	177,814	176,445	175,484
Common stock equivalents:			
Restricted stock units	510	618	556
Stock options	730	607	490
Employee stock purchase plan	2	1	1
Weighted-average common shares outstanding, diluted	179,056	177,671	176,531
Diluted earnings per share (a)			
Income from continuing operations	$ 2.06	$ 2.11	$ 1.73
Income (loss) from discontinued operations, net of tax	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.06	$ 2.01	$ 1.75

(a) Amounts may not sum due to rounding.

The following potentially dilutive common stock equivalents were not included in the earnings per share calculations for the years ended December 31 because they were anti-dilutive:

	2013	2012	2011
Stock options	327	619	711
Restricted stock units where certain performance conditions were not met	20	19	22

Note 17: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

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

Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- (BBB+ at December 31, 2012) debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments are as follows:

2013 **Recurring Fair Value Measures**	**Carrying Amount**	**At Fair Value as of December 31,** **Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 18,827	$ 0	$ 0	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

2012 **Recurring Fair Value Measures**	**Carrying Amount**	**At Fair Value as of December 31,** **Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 20,511	$ 0	$ 0	$ 27,263	$ 27,263
Long-term debt (excluding capital lease obligations)	5,303,729	2,400,847	1,677,776	2,252,272	6,330,895

Fair Value Measurements

To increase consistency and comparability in fair value measurements, FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds and money market funds.
- Level 2—inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.
- Level 3—unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of December 31, 2013 and 2012, respectively:

	At Fair Value as of December 31, 2013			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Restricted funds	$29,259	$ 0	0	$29,259
Rabbi trust investments	0	444	0	444
Deposits	1,901	0	0	1,901
Mark-to-market derivative asset	0	4,776	0	4,776
Total assets	31,160	5,220	0	36,380
Liabilities:				
Deferred compensation obligation	0	11,928	0	11,928
Mark-to-market derivative liability	0	1,276	0	1,276
Total liabilities	0	13,204	0	13,204
Total net assets (liabilities)	$31,160	$ (7,984)	0	$23,176

	At Fair Value as of December 31, 2012			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Restricted funds	$40,547	$ 0	0	$40,547
Rabbi trust investments	0	481	0	481
Deposits	2,103	0	0	2,103
Mark-to-market derivative asset	0	7,909	0	7,909
Total assets	42,650	8,390	0	51,040
Liabilities:				
Deferred compensation obligation	0	10,237	0	$10,237
Total liabilities	0	10,237	0	10,237
Total net assets (liabilities)	$42,650	$ (1,847)	0	$40,803

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to year end are classified as current.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

See Note 14 for the Company's fair value of qualified pension and postretirement welfare plans' assets.

Non-recurring Fair Value Measurements

As discussed in Note 7, the Company recognized continuing operations goodwill impairment charges of $0 for each of the years ended December 31, 2013, 2012 and 2011, respectively. The Company's goodwill valuation model includes significant unobservable inputs and falls within Level 3 of the fair value hierarchy.

Note 18: Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $24,301 for 2013, $28,149 for 2012 and $32,752 for 2011. The operating leases for facilities will expire over the next 20 years and the operating leases for equipment will expire over the next five years. Certain operating leases have renewal options ranging from one to five years.

At December 31, 2013, the minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are $ 15,898 in 2014, $13,396 in 2015, $10,921 in 2016, $9,949 in 2017, $8,048 in 2018 and $89,318 thereafter.

The Company has a series of agreements with various public entities (the "Partners") to establish certain joint ventures, commonly referred to as "public-private partnerships." Under the public-private partnerships, the Company constructed utility plant, financed by the Company, and the Partners constructed utility plant (connected to the Company's property), financed by the Partners. The Company agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs"), issued by the Partners under a state Industrial Development Bond and Commercial Development Act. The Company leased back the total facilities, including portions funded by both the Company and the Partners, under leases for a period of 40 years.

The leases related to the portion of the facilities funded by the Company have required payments from the Company to the Partners that approximate the payments required by the terms of the IDBs from the Partners to the Company (as the holder of the IDBs). As the ownership of the portion of the facilities constructed by the Company will revert back to the Company at the end of the lease, the Company has recorded these as capital leases. The lease obligation and the receivable for the principal amount of the IDBs are presented by the Company on a net basis. The gross cost of the facilities funded by the Company recognized as a capital lease asset was $158,115 and $158,565 at December 31, 2013 and 2012, respectively, which is presented within utility plant. The future payments under the lease obligations are equal to and offset by the payments receivable under the IDBs.

At December 31, 2013, the minimum annual future rental commitment under the operating leases for the portion of the facilities funded by the Partners that have initial or remaining non-cancelable lease terms in excess of one year included in the preceding minimum annual rental commitments are $3,755 in 2014 through 2018, and $77,072 thereafter.

Note 19: Segment Information

The Company has two operating segments referred to as the Regulated Businesses and Market-Based Operations segments. The Company's chief operating decision maker regularly reviews the operating results of the Regulated Businesses and Market-Based Operations segments to assess segment performance and allocate resources. The evaluation of segment performance and the allocation of resources are based on several measures. The measure that is most consistent with that used by management is income from continuing operations before income tax.

The Regulated Businesses segment includes the Company's 18 utility subsidiaries in continuing operations that provide water and wastewater services to customers in 16 U.S. states. With the exception of one company, each of these public utility subsidiaries is subject to regulation by public utility commissions and local governments. In addition to providing similar products and services and being subject to the public utility regulatory environment, each of the regulated subsidiaries has similar economic characteristics, production processes, types and classes of customers and water distribution or wastewater collection processes. Each of these companies is also subject to both federal and state regulation regarding the quality of water distributed and the discharge of wastewater residuals.

The Market-Based Operations segment is comprised of market-based businesses that provide a broad range of water and wastewater services and products including homeowner water and sewer line maintenance services, water and wastewater facility operations and maintenance services and products for cleansing water and wastewater and wastewater residuals management services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. (See Note 2) The Regulated Businesses and Market-Based Operations segment information includes intercompany costs that are allocated by American Water Works Service Company, Inc. and intercompany interest that is charged by AWCC, which are eliminated to reconcile to the consolidated results of operations. Inter-segment revenues, which are primarily recorded at cost plus mark-up that approximates current market prices, include carbon regeneration services and leased office space, furniture and equipment provided by the Company's market-based subsidiaries to its regulated subsidiaries. Other includes corporate costs that are not allocated to the Company's subsidiaries, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the Acquisitions that have not been allocated to the segments for evaluation of segment performance and allocation of resource purposes. The adjustments related to the Acquisitions are reported in Other, as they are excluded from segment performance measures evaluated by management. The following table includes the Company's summarized segment information:

	As of or for the Year Ended December 31, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,593,918	$325,463	$ (17,523)	$ 2,901,858
Depreciation and amortization	375,939	7,013	24,766	407,718
Total operating expenses, net	1,700,052	277,691	(21,734)	1,956,009
Income from continuing operations before income taxes	654,834	50,637	(100,001)	605,470
Total assets	13,429,087	286,048	1,354,398	15,069,533
Capital expenditures	973,301	6,951	0	980,252

	As of or for the Year Ended December 31, 2012			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,564,434	$330,329	$ (17,874)	$ 2,876,889
Depreciation and amortization	349,629	6,661	25,213	381,503
Total operating expenses, net	1,685,734	288,099	(21,917)	1,951,916
Income from continuing operations before income taxes	649,117	45,817	(63,676)	631,258
Total assets	12,680,856	260,255	1,777,865	14,718,976
Capital expenditures	921,500	7,074	0	928,574
Capital expenditures of discontinued operations (included in above)	2,884	0	0	2,884

	As of or for the Year Ended December 31, 2011			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,368,891	$327,815	$ (30,470)	$ 2,666,236
Depreciation and amortization	321,540	6,822	23,459	351,821
Total operating expenses, net	1,609,276	290,768	(36,944)	1,863,100
Income from continuing operations before income taxes	535,445	39,324	(71,089)	503,680
Total assets	12,843,820	256,110	1,676,461	14,776,391
Assets of discontinued operations (included in total assets above)	904,391	0	25,467	929,858
Capital expenditures	920,210	4,648	0	924,858
Capital expenditures of discontinued operations (included in above)	21,052	86	0	21,138

Note 20: Unaudited Quarterly Data

The following table sets forth certain supplemental unaudited consolidated quarterly financial data for each of the four quarters in the years ended December 31, 2013 and 2012, respectively. The operating results for any quarter are not indicative of results that may be expected for a full year or any future periods:

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per-share data)			
Operating revenues	$636,137	$724,265	$829,196	$712,260
Operating income	164,233	241,887	323,875	215,854
Income from continuing operations	57,643	101,263	150,665	59,693
Net income	57,643	101,263	150,665	59,693
Basic earnings per common share:				
Income from continuing operations	$ 0.32	$ 0.57	$ 0.85	$ 0.33
Net income	$ 0.32	$ 0.57	$ 0.85	$ 0.33
Diluted earnings per common share:				
Income from continuing operations	$ 0.32	$ 0.57	$ 0.84	$ 0.33
Net income	$ 0.32	$ 0.57	$ 0.84	$ 0.33

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per-share data)			
Operating revenues	$618,554	$745,607	$831,815	$680,913
Operating income	159,738	270,632	327,640	166,963
Income from continuing operations	49,252	116,663	154,111	54,224
Net income	41,754	107,026	153,812	55,478
Basic earnings per common share:				
Income from continuing operations	$ 0.28	$ 0.66	$ 0.87	$ 0.31
Net income	$ 0.24	$ 0.61	$ 0.87	$ 0.31
Diluted earnings per common share:				
Income from continuing operations	$ 0.28	$ 0.66	$ 0.87	$ 0.30
Net income	$ 0.24	$ 0.60	$ 0.86	$ 0.31

Amounts may not sum due to rounding; per share amounts may not sum due to changes in shares outstanding during the year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 (“the Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of December 31, 2013 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting, as of December 31, 2013, using the criteria described in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the framework in Internal Control—Integrated Framework issued by COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 201 3 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information required by this item and not given below, is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the fiscal year covered by this report, under the captions entitled "Nominees for Election as Directors," "Information Relative to the Board of Directors and Committees of the Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance ," and "Code of Ethics and Corporate Governance Guidelines."

We have adopted a Code of Ethics, which applies to directors and employees. The full text of the Code of Ethics is publicly available on our website at *http://www.amwater.com* . We intend to post on our website any amendments to certain provisions of our Code of Ethics and any waivers of such provisions granted to principal officers.

Name	Age	Office and Employment During Last Ten Years
Jeffry Sterba	58	Mr. Sterba has been our President and Chief Executive Officer since August 2010. He will cease to serve in that capacity following the Annual Meeting. He will continue to serve as an adviser to Ms. Story until January 1, 2015. Prior to joining American Water, Mr. Sterba served as Chairman and CEO of PNM Resources, Inc., the parent company of Public Service Company of New Mexico (PNM), Texas-New Mexico Power Company (TNMP) and First Choice Power, from 2000 until March 2010. Mr. Sterba previously served as Non-Executive Chairman of PNM Resources until retiring from the PNM Resources board in December 2011. After joining PNM in 1977, he held a succession of positions including Executive Vice President and Chief Operating Officer, Senior Vice President Bulk Power Services, Senior Vice President Asset Restructuring, Senior Vice President Retail Electric & Water Services and Vice President Revenue Management. From 1998 to 2000, Mr. Sterba was Executive Vice President of United States Enrichment Corporation (USEC), a global energy company headquartered in Maryland. He has served as the chair of Edison Electric Institute, the national association of shareholder owned utilities, and chair of the Electric Power Research Institute, a global non-profit center for energy and environment research. He serves on the board of directors of the Meridian Institute and previously served on the board of directors of the U.S. Chamber of Commerce.
Susan N. Story	54	Ms. Story has been our Senior Vice President and Chief Financial Officer since April 2013. Previously, she was employed for over 30 years by Southern Company, which owns and operates electric utilities in four states, and also is engaged in electric wholesale generation and telecommunications, including both wireless and wireline, fiber optic communications. Ms. Story was an executive officer of Southern Company from 2003 until she joined the Company. In addition, from January 2011 until she joined the Company, she served as the President and Chief Executive Officer of Southern Company Services, which provides shared services for all of Southern Company's subsidiaries, including information technology and cyber security efforts, human resources, procurement and supply chain management, marketing services, customer research and system transportation functions. From 2003 to December 2010, she was the President and Chief Executive Officer of Gulf Power Company, an electric utility serving the northwestern portion of Florida. Ms. Story is an independent board member of Raymond James Financial and serves on the boards of the Bipartisan Policy Center in Washington, DC and the Moffitt Cancer Center in Tampa, FL.

Name	Age	Office and Employment During Last Ten Years
Walter J. Lynch	51	Mr. Lynch has served as our President and Chief Operating Officer of Regulated Operations since March 2010, and President of Regulated Operations since July 2008. Prior to that date, he served as Executive Vice President, Eastern Division. He also served as president of New Jersey American Water, Long Island American Water and our Northeast Region. Mr. Lynch joined us in 2001 and served as President of our Products and Services Group, where he was responsible for overseeing our Market-Based Operations. Prior to this, he was President of the Southwest Region of American Water Services. Mr. Lynch has more than 20 years of experience in engineering, sales and marketing, operations and business development. Before joining us, he was involved with various start-up and growth organizations in the environmental industry. Mr. Lynch worked for Mobil Oil Corporation following his departure from the United States Army where he attained the rank of Captain. In addition, Mr. Lynch is on the board of directors of the National Association of Water Companies and serves on its Executive Committee.
Kellye L. Walker	47	Ms. Walker has been our Chief Administrative Officer since September 2010, and Senior Vice President, General Counsel and Secretary since January 2010. From February 2007 to June 2009, Ms. Walker served as Senior Vice President and General Counsel of Diageo North America, Inc., the largest operating company of Diageo plc. From February 2003 to December 2006, Ms. Walker served as Senior Vice President, General Counsel and Secretary of BJ's Wholesale Club, Inc., a leading warehouse club operator. Ms. Walker also served as a partner with the law firm of Hill & Barlow in Boston, Massachusetts, and as a partner and/or associate with the law firms of Chaffe, McCall, Phillips, Toler & Sarpy in New Orleans, Louisiana, and Boult, Cummings, Connors & Berry in Nashville, Tennessee.
Mark Chesla	54	Mr. Chesla has been our Vice President and Controller since November 2007. From 2001 to November 2007, Mr. Chesla was Vice President and Controller of Oglethorpe Power Corporation, in Atlanta, Georgia, where he served as that company's chief accounting officer. In this capacity he was responsible for all aspects of the accounting, internal financial management, regulatory and SEC reporting functions. Mr. Chesla was Vice President, Administration/Controller of SouthStar Energy Services LLC, in Atlanta, Georgia, from 1998 to 2001. Earlier, he held management positions with several other companies, including Piedmont Natural Gas Co., Inc., Aegis Technologies, Inc., Deloitte & Touche LLP and Carolina Power & Light Company.
Mark F. Strauss	62	Mr. Strauss has been our Senior Vice President of Corporate Strategy and Business Development since September 2010. From December 2006, until his new appointment in September 2010, Mr. Strauss was President of American Water Enterprises, managing our Market-Based Operations. Previously, Mr. Strauss was President and Chief Executive Officer of a line of business that we sold in 2012, Applied Water Management Group, which provided customized water and wastewater management solutions to real estate developers, industrial clients and small to midsized communities nationwide. Mr. Strauss joined Applied Water Management Group in 1997 as Corporate Counsel and Secretary. He was promoted to Chief Operating Officer in 2002, a position he held until his appointment as Division President and Chief Executive Officer in 2003. Earlier, he served as Vice President and General Counsel of Vizzoni Brothers Construction, Inc. Mr. Strauss serves as a director of Skylands Community Bank. Mr. Strauss was also an associate at the law firms of Ozzard, Rizzolo, Klein, Mauro & Savo and Toolan, Romond, Abbot and Domenichetti.

Name	Age	Office and Employment During Last Ten Years
William M. Varley	56	Mr Varley has been Senior Vice President, Northeast Division and President of New Jersey American Water since January 2014. He is also President of New York American Water (formerly named Long Island American Water), a position he has held since 2007. Mr. Varley previously served as vice president and manager of Long Island American Water, as well as vice president of Business Development for New Jersey and New York. Prior to joining American Water in 2000, Mr. Varley was the district manager for Layne Christensen Co., a large water supply contracting company, for 13 years. There he oversaw Layne's Long Island well-drilling operations. He also worked for large consulting engineering firms Camp Dresser & McKee and Hazen & Sawyer as resident and design engineer for large wastewater treatment plant upgrades. Mr. Varley holds a bachelors of science in civil engineering technology from Rochester Institute of Technology.
Nick O. Rowe	56	Mr. Rowe has been the Senior Vice President of our Central Division since November 2011. From January 2009 until his new appointment in November 2011, Mr. Rowe was Senior Vice President of our Eastern Division, and from 2006 to January 2011, he was President of Kentucky American Water. From 2005 to 2006, he served as Vice President of Service Delivery Operations for the Southeast Region of American Water. From 2003 to 2005, he served as Vice President, Business Change for American Water in New Jersey, and from 1998 to 2003, Mr. Rowe was Vice President of Operations for Kentucky American Water. From 1987 to 1998, he served in various management positions with responsibility for the day-to-day operations of American Water facilities in several states including Virginia, West Virginia, and Pennsylvania. Mr. Rowe is involved with various regulatory agencies and civic and professional organizations. He is also a member of the American Water Works Association and the National Association of Water Companies.
Kathy L. Pape	61	Ms. Pape has been our Senior Vice President, Mid-Atlantic Division since November 2011, and President of Pennsylvania American Water since July 2007. From 1999 to 2007, Ms. Pape served as Senior Vice President, Treasurer and Rate Counsel for Aqua America, Inc. with responsibility for all financing activities, billing, rates and regulatory filings, budgeting and long-range planning. From 1994 to 1999, Ms. Pape was employed by us as Regional Counsel and Finance Manager, where her responsibilities included rates and regulatory affairs, finance, budgeting and customer service for 10 states. Prior to 1994, Ms. Pape was Vice President and Corporate Counsel for General Waterworks Management and Service Co., Assistant Counsel to the Pennsylvania Public Utility Commission and Assistant Consumer Advocate for the Pennsylvania Office of Consumer Advocate.
William D. Rogers	53	Mr. Rogers has been our Vice President and Treasurer since October 2010. From 2005 to 2010, he was Chief Financial Officer for NV Energy, an investor-owned utility in Las Vegas, Nevada. From 2005 to 2007, he also served as NV Energy's Vice President of Finance, Risk and Tax and as Corporate Treasurer. Before joining NV Energy, Mr. Rogers was a managing director of capital markets for both Merrill Lynch and JPMorgan Chase in New York.
John R. Bigelow	59	Mr. Bigelow has been our Senior Vice President of Business Services since November 2011. From 2007 until his new appointment in November 2011, Mr. Bigelow was President of New Jersey American Water (NJAWC). Mr. Bigelow joined American Water in 1994 and held a number of senior management positions during his tenure, including American Water's Senior Vice President of Regulatory Programs and Enterprise Risk Management. From December 2003 to February 2006,

Name	Age	Office and Employment During Last Ten Years
		Mr. Bigelow served as American Water's Chief Financial Officer, Vice President and Treasurer of NJAWC, and Director, Vice President and Treasurer of New Jersey American Resources Co. Mr. Bigelow began his career with GPU System Companies, where he spent 18 years in various leadership roles in the finance area.
Sharon Cameron	57	Ms. Cameron has been president of American Water Enterprises, our Market-Based Operations, since September 2010. She also serves as President of American Water Resources, Inc., a business she has been leading since 2002. Prior to joining American Water, Ms. Cameron was principal of Marketing Solutions, a marketing consulting firm she launched in 1998, and was a consultant to American Water on the Homeowner Services business. Previously, Ms. Cameron served as vice president of Marketing and Sales at Comcast Corporation (New Jersey), senior marketing manager at Menley & James Laboratories, and marketing manager at Campbell Soup Company.
Mark S. Smith	54	Mr. Smith has been our Vice President and Chief Information Officer since September 2012. From 2008 to 2012, Mr. Smith served as our ITS Senior Director, Business Application Development & Project Management Office. Prior to joining American Water, Mr. Smith, held several roles with Siemens and Shared Medical Systems (pre-acquisition) over a course of 23 years, including Group Manager of Management Information Systems and Director of the Shared Services Office where he was responsible for enterprise and system level architecture definition, administration and implementation for internal development as well as custom commercial applications.
Maureen Duffy	44	Ms. Duffy has been our Vice President of Corporate Communications and External Affairs since September 2011. From June 2011 to September 2011, Ms. Duffy served as the Executive Director of Corporate Communications and External Affairs. From September 2008 to June 2011, Ms. Duffy served as Director of External Communications, and from July 2006 until September 2008, she served as Director of Internal Communications. From November 1999 to July 2006, she held various positions with New Jersey American Water, which included Government Affairs/ Media Specialist, Communications Manager and Director of Corporate Communications. Prior to joining American Water, Ms. Duffy reported and produced news for WNJN/WNET-TV.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, under the captions entitled "Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Director Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item setting forth the security ownership of certain beneficial owners and management is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, under the caption entitled "Security Ownership of Principal Stockholders and Management" and the "Equity Compensation Plan" table appearing under the caption "Long-Term Equity Incentive Compensation."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, under the captions entitled "Certain Relationships and Related Transactions" and "Director Independence."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, under the caption entitled "Independent Registered Public Accounting Fees and Services."

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted since they are either not required or are not applicable as the information is otherwise included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26 day of February, 2014.

AMERICAN WATER WORKS COMPANY, INC.

BY: /s/ JEFFRY STERBA

Jeffry Sterba
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed on the 26th day of February, 2014 by the following persons in the capacities indicated.

/s/ JEFFRY STERBA

Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer and Director)

/s/ SUSAN N. STORY

Susan N. Story
Senior Vice President and Chief Financial Officer

/s/ MARK CHESLA

Mark Chesla
Vice President, Controller

/s/ GEORGE MACKENZIE

George MacKenzie
(Director)

/s/ MARTHA CLARK GOSS

Martha Clark Goss
(Director)

/s/ JULIE A. DOBSON

Julie A. Dobson
(Director)

/s/ RICHARD R. GRIGG

Richard R. Grigg
(Director)

/s/ JULIA L. JOHNSON

Julia L. Johnson
(Director)

/s/ WILLIAM J. MARRAZZO

William J. Marrazzo
(Director)

/s/ STEPHEN P. ADIK

Stephen P. Adik
(Director)

/s/ PAUL J. EVANSON

Paul J. Evanson
(Director)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008.)
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed January 5, 2010).
4.1	Indenture, dated as of October 22, 2007 between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to American Water Capital Corp.'s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc.'s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).
10.1	Credit Agreement, dated October 29, 2012, between American Water Capital Corp., each of the initial lenders named therein as Lenders, Wells Fargo Bank, N.A. as administrative agent and JP Morgan Chase Bank, N.A., as syndication agent. (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed on May 7, 2013).
10.2	Support Agreement, dated June 22, 2000, together with First Amendment to Support Agreement, dated July 26, 2000, by and between American Water Works Company, Inc. and American Water Capital Corp. (incorporated by reference to Exhibit 10.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.3.1	Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 25, 2013 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.3.2	First Amendment to the Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 27, 2013 (incorporated by reference to Exhibit 10.2A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.4.1	Employment Agreement between Jeffry E. Sterba and American Water Works Company, Inc., dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed March 30, 2012).
10.4.2	Letter Agreement, dated December 12, 2013, between the Company and Jeffry E. Sterba, amending Mr. Sterba's Employment Letter Agreement dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 13, 2013).
10.5	Employment Agreement between Susan Story and American Water Works Company, Inc., dated February 20, 2013 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.6	Employment Agreement between Kellye L. Walker and American Water Works Company, Inc., dated December 21, 2009 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.7	Amended and Restated American Water Works Company, Inc. Executive Retirement Plan, dated as of March 1, 2007 (incorporated by reference to Exhibit 10.8 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).

Exhibit Number	Exhibit Description
10.8	Amended and Restated American Water Works Company, Inc. Deferred Compensation Plan, dated as of January 1, 2001 (incorporated by reference to Exhibit 10.9 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.9.1	American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.15 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.9.2	Amendment 2010-1 to the American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan, dated as of December 10, 2010 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-K, File No. 001-34028, filed February 28, 2011).
10.10	American Water Works Company, Inc. Executive Severance Policy, dated as of December 16, 2008 (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed November 3, 2010).
10.11.1	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (incorporated by reference to Exhibit 10.22 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.11.2	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Nonqualified Stock Option Grant for ML1—L5 Employees (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.11.3	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form A for ML1—L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.11.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form B for ML1—L5 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.11.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Nonqualified Stock Option Grant for ML1—L5 Employees (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.11.6	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form A for ML1—L5 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.11.7	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form B for ML1—L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.11.8	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Initial Restricted Stock Unit Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.9	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).

Exhibit Number	Exhibit Description
10.11.10	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for Jeffry E. Sterba (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.11	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for Jeffry E. Sterba (incorporated by reference to Exhibit 10.8 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.12	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.9 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.13	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for ML2—L5 (incorporated by reference to Exhibit 10.10 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.14	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for ML2—L5 (incorporated by reference to Exhibit 10.11 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.15	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for ML2—L5 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.16	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for ML2—L5 (incorporated by reference to Exhibit 10.13 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.17	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 3, 2011).
10.11.18	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 2, 2012).
10.11.19	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Stock Unit Grant Form for Non-Employee Directors (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed August 7, 2013).
10.12	2011 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.13	2012 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14	2013 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).

Exhibit Number	Exhibit Description
10.15	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries, as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.37 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
10.16	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.38 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
*21.1	Subsidiaries of American Water Works Company, Inc.
*23.1	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Jeffry E. Sterba, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*32.1	Certification of Jeffry E. Sterba, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*32.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*101	The following financial statements from American Water Works Company, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

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* filed herewith

Instruments defining the rights of holders of certain issues of long-term debt of the Company and certain of its consolidated subsidiaries have not been filed as exhibits to this report because the authorized principal amount of any one of such issues does not exceed 10% of the consolidated total assets of the Company's consolidated total assets. The Company agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-168543 and 333-150381) and Form S-3 (Nos. 333-187120 and 333-181155) of American Water Works Company, Inc. of our report dated February 26, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2014

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffry Sterba, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

> a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2014

By: /s/ JEFFRY STERBA

Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER

I, Susan N. Story, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2014

By: /s/ SUSAN N. STORY

Susan N. Story
Senior Vice President and Chief Financial Officer

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND 18 U.S.C. SECTION 1350,

I, Jeffry Sterba, President and Chief Executive Officer of American Water Works Company, Inc. (the “Company”), hereby certify that, based on my knowledge:

(1) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer)

February 26, 2014

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND
18 U.S.C. SECTION 1350,

I, Susan N. Story, Senior Vice President and Chief Financial Officer, of American Water Works Company, Inc. (the "Company"), hereby certify that, based on my knowledge:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY

Susan N. Story
Senior Vice President and Chief Financial Officer

February 26, 2014

CORPORATE INFORMATION

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers, LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

STOCK TRANSFER AGENT

American Stock Transfer &
Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Phone: 1-800-937-5449

INVESTOR INQUIRIES

Stockholders with questions, or who wish to obtain a copy of the company's reports to the Securities and Exchange Commission without charge, should visit American Water's investor relations pages at www.amwater.com, or contact:

Investor Relations
1025 Laurel Oak Road
Voorhees, NJ 08043
Investor Relations Line: 856-566-4005
Investor Relations Fax: 856-782-2782
E-mail: aw.investorrelations@amwater.com

HEADQUARTERS

1025 Laurel Oak Road
Voorhees, NJ 08043
Phone: 856-346-8200

INTERNET ADDRESS

www.amwater.com

STOCK MARKET

Common stock of American Water Works Company, Inc. is traded on the New York Stock Exchange under the symbol AWK.

STOCK LISTING

AWK
LISTED
NYSE

ANNUAL MEETING

The annual meeting of stockholders is scheduled for 10:00 am ET on Friday, May 9, 2014 to be held at the Mansion on Main Street, Plaza 3000, Voorhees, New Jersey, 08043. All holders of our outstanding common stock at the close of business March 17, 2014 are entitled to vote at the meeting. To encourage broader participation, investors as of the record date of March 17, 2014 are authorized to virtually attend and vote online by visiting Investor Relations on our website www.amwater.com. Notice of the meeting and proxy materials will be distributed to authorized stockholders and are accessible to the public at www.amwater.com. Management encourages all investors to participate and vote.

EXECUTIVE CERTIFICATIONS

American Water Works has included as Exhibit 31 to its 2013 Annual Report of Form 10-K filed with the Securities and Exchange Commission certificates of the chief executive officer and chief financial officer of the company regarding the quality of the company's public disclosure. The company has also submitted to the New York Stock Exchange (NYSE) a certificate of the CEO certifying that he is not aware of any violation by the company of NYSE corporate listing standards.

STOCK PERFORMANCE GRAPH

The company's common stock began trading publicly on April 23, 2008. The graph to the right compares the cumulative total return on American Water's common stock with the cumulative total return on the Standard & Poor's 500 Index and the Dow Jones U.S. Utilities Total Return Index from December 31, 2008 through December 31, 2013. The comparison assumes $100 was invested on December 31, 2008 and that dividends were reinvested.

BOARD OF DIRECTORS

Jeffry E. Sterba
President and Chief Executive Officer

George MacKenzie
Non-Executive Chairman of the Board

Stephen P. Adik
Director

Julie A. Dobson
Director

Paul J. Evanson
Director

Martha Clark Goss
Director

Richard R. Grigg
Director

Julia L. Johnson
Director

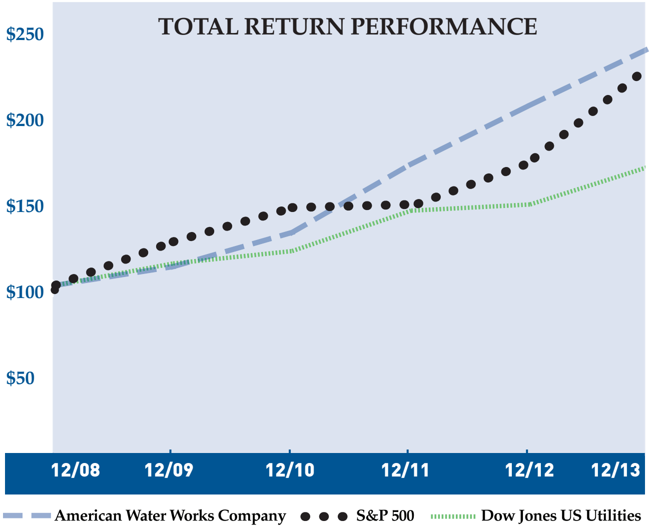
William J. Marrazzo
Director

DIVIDENDS

Dividends paid on common stock in 2013 were:

June 3, 2013	$0.28
September 3, 2013	$0.28
December 2, 2013	$0.28

NOTE: Paid an accelerated First Quarter 2013 cash dividend of $0.25 on December 28, 2012 to shareholders of record at December 20, 2012 to allow shareholders to take advantage of 2012 tax rates.



	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
American Water	$100.00	$111.94	$131.25	$170.67	$205.83	$239.00
S&P 500	$100.00	$126.46	$145.51	$148.59	$172.37	$228.19
DJ U.S. Utilities Index	$100.00	$112.58	$121.36	$144.61	$147.15	$169.52

AWK 10-K 12/31/2014

Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 "small reporting company" in Rule 12(b)-2 of the Exchange Act.:

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Small reporting company	☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, $0.01 par value—$8,858,523,983 as of June 30, 2014.

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

Common Stock, $0.01 par value per share—179,787,780 shares, as of February 19, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Company's Proxy Statement for the Company's 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this

report.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

We have made statements under the captions “Business,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other sections of this Annual Report on Form 10-K (“Form 10-K”), or incorporated certain statements by reference into this Form 10-K, 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,” “forecast,” “outlook,” “future,” “potential,” “continue,” “may,” “can,” “should” and “could” and 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 of any outcomes, financial results or levels of performance and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and uncertainties, and new risks and uncertainties of which we are not currently aware or which we do not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of our expectations or assumptions prove incorrect, then our results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under the caption “Risk Factors” and the following 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 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 recent events 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 our computer systems;
- 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 acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of our operations;
- changes in general economic, business and financial market conditions;
- access to sufficient capital on satisfactory terms;
- 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;
- our ability to utilize our U.S. and state net operating loss carryforwards;
- migration of customers into or out of our service territories and the use by municipalities to condemn our systems through eminent domain;
- difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;
- the incurrence of impairment charges;
- labor actions, including work stoppages;
- ability to retain and attract qualified employees; and
- civil disturbance, or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make, speak only as of the date of this Form 10-K. 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.

PART I

ITEM 1. BUSINESS

Our Company

Founded in 1886, American Water Works Company, Inc., (the “Company,” “American Water” or “AWW”) is a Delaware holding company. American Water is the most geographically diversified, as well as the largest publicly-traded, United States water and wastewater utility company, as measured by both operating revenues and population served. As a holding company, we conduct substantially all of our business operations through our subsidiaries. Our approximately 6,400 employees provide an estimated 15 million people with drinking water, wastewater and/or other water-related services in 47 states and one Canadian province.

Operating Segments

We report our results of operations in two operating segments: the Regulated Businesses and the Market-Based Operations. Additional information with respect to our operating segment results is included in the section entitled “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 18 of the Consolidated Financial Statements.

Regulated Businesses

Our primary business involves the ownership of subsidiaries that provide water and wastewater utility services to residential, commercial, industrial and other customers, including sale for resale and public authority customers. We report the results of this business in our Regulated Businesses segment. Our subsidiaries that provide these services are generally subject to economic regulation by certain state commissions or other entities engaged in economic regulation, hereafter referred to as Public Utility Commissions, or “PUCs,” of the states in which we operate. The federal and state governments also regulate environmental, health and safety, and water quality matters.

Our Regulated Businesses segment operating revenues were $2,674.3 million for 2014, $2,539.9 for 2013, $2,564.4 million for 2012, accounting for 88.8%, 90.1% and 89.9%, respectively, of total operating revenues for the same periods.

The following table sets forth our Regulated Businesses operating revenues, number of customers and an estimate of population served as of December 31, 2014:

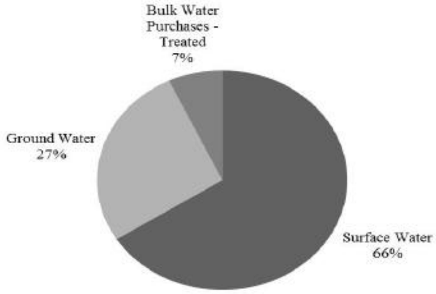
	Operating Revenues (In millions)	% of Total	Number of Customers	% of Total	Estimated Population Served (In millions)	% of Total
New Jersey	$ 652.3	24.5%	648,066	20.2%	2.7	22.7%
Pennsylvania	605.4	22.6%	666,415	20.7%	2.2	18.5%
Missouri	270.2	10.1%	464,498	14.4%	1.5	12.7%
Illinois (a)	262.3	9.8%	312,017	9.7%	1.3	10.9%
California	209.8	7.8%	174,198	5.4%	0.6	5.0%
Indiana	200.6	7.5%	293,666	9.1%	1.2	10.1%
West Virginia (b)	127.0	4.7%	170,371	5.3%	0.6	5.0%
Subtotal (Top Seven States)	2,327.6	87.0%	2,729,231	84.8%	10.1	84.9%
Other (c)	346.7	13.0%	489,961	15.2%	1.8	15.1%
Total Regulated Businesses	$ 2,674.3	100.0%	3,219,192	100.0%	11.9	100.0%

(a) Includes Illinois-American Water Company, which we refer to as ILAWC and American Lake Water Company, also a regulated subsidiary in Illinois.
(b) Includes West Virginia-American Water Company, which we refer to as WVAWC, and its subsidiary Bluefield Valley Water Works Company.
(c) Includes data from our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia.

Overview of Networks, Facilities and Water Supply

Our Regulated Businesses operate in approximately 1,600 communities in 16 states in the United States. Our primary operating assets include 89 dams and 81 surface water treatment plants along with approximately 500 groundwater treatment plants, 1,000 groundwater wells, 100 wastewater treatment facilities, 1,200 treated water storage facilities, 1,300 pumping stations, and 48,000 miles of mains and collection pipes. Our regulated utilities own substantially all of the assets used by our Regulated Businesses. We generally own the land and physical assets used to store, extract and treat source water. Typically, we do not own the water itself, which is held in public trust and is allocated to us through contracts and allocation rights granted by federal and state agencies or through the ownership of water rights pursuant to local law. Maintaining the reliability of our networks is a key activity of our Regulated Businesses. We have ongoing infrastructure renewal programs in all states in which our Regulated Businesses operate. These programs consist of both rehabilitation of existing mains and other equipment and replacement of mains and other equipment that are damaged or have reached, or are near, the end of their useful service lives.

As noted, our Regulated Businesses are dependent upon a defined source of water supply and obtain their water supply from surface water sources such as reservoirs, lakes, rivers and streams. In addition, we also obtain water from ground water sources, such as wells, and purchase water from other water suppliers. The following chart sets forth the sources of water supply for our Regulated Businesses for 2014 by volume:



Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, governmental restrictions, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. We employ a variety of measures to ensure that we have adequate sources of water supply, both in the short-term and over the long-term. The geographic diversity of our service areas tends to mitigate some of the economic effect associated with weather extremes we might encounter in any particular service territory. In any given summer, some areas may have source issues and experience drier than average weather while other areas we serve may experience wetter than average weather.

In our long-term planning, we evaluate quality, quantity, growth needs and alternate sources of water supply as well as transmission and distribution capacity. Sources of supply are seasonal in nature and weather conditions can have a pronounced effect on supply. In order to ensure that we have adequate sources of water supply, we use planning processes and maintain contingency plans to minimize the potential impact on service through a wide range of weather fluctuations. In connection with supply planning for most surface or groundwater sources, we employ models to determine safe yields under different rainfall and drought conditions. Surface and groundwater levels are routinely monitored so that supply capacity deficits may, to the extent possible, be predicted and mitigated through demand management and additional supply development.

Additionally, in California as part of the Urban Water Management Plan of 1983, water suppliers serving greater than 3,000 acre feet per year or 3,000 connections are required to submit an Urban Water Management Plan to the Department of Water Resources every five years. These plans assess water supply reliability over a 20-year planning period under normal, dry and multi-year dry periods to ensure that water suppliers have adequate water supply for current and future demands. In 2009, additional conservation elements were added to the plan that required utilities to show how they could meet a 20% demand reduction by 2020.

The percentage of finished water supply by source type for our top seven states by Regulated Businesses revenues for 2014 is as follows:

	Ground water	Surface water	Purchased Water
New Jersey	24%	71%	5%
Pennsylvania	7%	92%	1%
Missouri (a)	19%	80%	1%
Illinois	35%	54%	11%
California (b)	66%	—	34%
Indiana	56%	43%	1%
West Virginia	—	99%	1%

(a) There are limitations in our Joplin, Missouri service area where the projected source of water supply capacity is unable to meet projected peak demands under certain drought conditions. To manage this issue on the demand side, the water use of a large industrial customer can be restricted under an interruptible tariff. Additional wells have been and will be developed to address short-term supply deficiencies. Missouri-American Water Company is working with a consortium of agencies to determine a long-term supply solution for the Joplin, Missouri region.

(b) In Monterey, California, in order to augment our sources of water supply, we have implemented conservation rates and other programs to address demand. These include utilizing aquifer storage and recovery facilities to store winter water for summer use. Additionally, in other areas we are making arrangements to extend or expand our purchase of water from neighboring water providers.

The level of treatment we apply to the water varies significantly depending upon the quality of the water source and customer stipulations. Surface water sources, such as rivers, typically require significant treatment, while some groundwater sources, such as aquifers, require chemical treatment only. In addition, a small amount of treated water is purchased from neighboring water purveyors. Treated water is transported through our transmission and distribution network, which includes underground pipes, above ground storage facilities and numerous pumping facilities with the ultimate distribution of the treated water to the customers' premises.

We have installed production meters to measure the water that we deliver to our distribution network. We also employ a variety of methods of customer meter reading to monitor consumption; ranging from meters with mechanical registers where consumption is manually recorded by meter readers, to meters with electronic registers capable of transmitting consumption data to proximity devices (touch read) or via radio frequency to mobile or fixed network data collectors. The majority of new meters are able to support future advances in electronic meter reading.

Wastewater services involve the collection of wastewater from customers' premises through sewer lines. The wastewater is then transported through a sewer network to a treatment facility, where it is treated to meet required effluent standards. The treated wastewater is finally returned to the environment as effluent, and the solid waste by-product of the treatment process is disposed of in accordance with applicable standards and regulations.

Economic Regulation and Rate Making Process

The operations of our Regulated Businesses are generally subject to extensive economic regulation by their respective PUCs. The term "economic regulation" is intended to indicate that these state PUCs regulate the economic aspects of service to the public but do not generally establish water quality standards, which are typically set by the federal Environmental Protection Agency ("EPA") and/or state environmental authorities. State PUCs have broad authority to regulate many of the economic and service aspects of the utilities. For example, state PUCs often issue certificates of public convenience and necessity (or similar authorizations) that may be required for a company to provide service in specific areas. They also approve the rates and conditions under which service is provided and have extensive authority to establish rules and regulations under which the utilities operate. Specific authority might differ from state to state, but in most states PUCs approve rates, accounting treatments, long-term financing programs and cost of capital, significant capital expenditures and plant additions, transactions and relationships between the regulated subsidiary and affiliated entities, reorganizations and mergers and acquisitions. In many instances, regulatory approvals are required to effect the transaction. Regulatory policies not only vary from state to state, but can change over time as well. These policies will affect the timing as well as the extent of recovery of expenses and the realized return on invested capital. Our results of operations are significantly affected by rates authorized by the PUCs in the states in which we operate, and we are subject to risks and uncertainties associated with rate case delays or inadequate rate recovery.

Economic regulation of utilities involves many competing, and occasionally conflicting, public interests and policy goals. The primary responsibility of PUCs is to promote the overall public interest by balancing the interests of customers and utility investors. Although the specific approach to economic regulation varies, certain general principles are consistent across the states in which our regulated subsidiaries operate. Based on certain legal and regulatory principles, economic regulation is generally intended to provide a utility the right to serve specific geographic areas. In return, the utility undertakes the obligation to provide safe and adequate service to all customers within its service area and is authorized an annual revenue requirement intended to provide recovery of prudent operation and maintenance costs, depreciation and taxes and an opportunity to earn a fair return on capital investment necessary to provide service to customers.

Our operating revenue is typically determined by reference to a volumetric charge based on consumption and a base fee component set by a tariff approved by the PUC. The process to obtain approval for a change in rates generally occurs by way of a "rate case" filed by the utility with the PUC on a periodic basis. The timing of rate case filings may be determined by either periodic requirements in the regulatory jurisdiction or by the utility's need to increase its revenue requirement to recover capital investment costs, changes in operating revenues, operating costs or other market conditions. A PUC may also initiate the filing of a rate case to conduct an investigation and may impose other conditions on the content and timing of filings under certain circumstances.

State PUCs differ with regard to the types of expenses and investments that may be recovered in rates as well as with regard to the transparency of their rate-making processes and how they reach their final rate determinations. However, in evaluating a rate case, state PUCs typically focus on a number of areas, including, the cost and prudence of investment in facilities; operating and maintenance expenses and taxes; the appropriate cost of capital and equity return; revenues or consumption at current and expected levels; allocation of the revenue requirements among customer classes; service quality and issues raised by customers.

Failure of the PUCs to recognize reasonable and prudent operating and capital costs can result in the inability of the utility to meet its debt service, provide adequate service to its customers and earn its authorized return, which can impact the operations and earnings of our Regulated Businesses. Rate cases and other rate-related proceedings can take several months to over a year to complete. Therefore, there may be delays, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating cost increase and when those costs are reflected in rates. For instance, an unexpected increase in chemical costs or new capital investment that is not reflected in the most recently completed rate case will generally not begin to be recovered by the regulated subsidiary until the effective date of the subsequent rate case. Our rate case management program is guided by the goals of obtaining efficient recovery of costs of capital, recognition of declining consumption and appropriate recovery of utility operating and maintenance costs, including costs incurred for compliance with environmental regulations. The management team at each of our Regulated Businesses anticipates the time required for the regulatory process and files rate cases with the goal of obtaining rates that reflect as closely as possible the cost of providing service at the time the rates become effective and a reasonable opportunity to earn the authorized return on invested capital, or rate base.

Our regulated subsidiaries work with legislatures and PUCs to mitigate the adverse impact of regulatory lag through the adoption of positive regulatory policies. These policies include, for example, infrastructure replacement surcharges that allow rates to change outside the context of a general rate proceeding to reflect, on a more timely basis, investments to replace infrastructure necessary to sustain high quality, reliable service. Currently, Pennsylvania, Illinois, Missouri, Indiana, New York, New Jersey and Tennessee allow the use of infrastructure surcharges. Forward-looking test year mechanisms allow us to earn, on a more current basis, our current or projected usage and costs and a rate of return on our current or projected invested capital. Some states have permitted the use of a fully forecasted test year instead of historical data to set rates. Those states are: Illinois, Kentucky, New York, Tennessee, California, Pennsylvania, Indiana, Hawaii and Virginia. In all states in which we operate on a regulated basis, PUCs have allowed utilities to update historical data for certain "known and measurable" changes that occur for some limited period of time subsequent to the historical test year. This allows utilities to take into account more current costs or capital investments in the rate-setting process. The extent to which historical data can be updated will generally vary from state to state.

Another mechanism to address issues of regulatory lag is the ability, in certain circumstances, to recover the full return on utility plant costs during the construction period, instead of capitalizing an allowance for funds used during construction. Examples of states that have allowed such recovery include Pennsylvania, Kentucky, Virginia, Illinois and California. In addition, some states, such as Indiana, allow the utility to seek pre-approval of certain capital projects and associated costs. In this pre-approval process, the PUC assesses the prudency of such projects.

Surcharge mechanisms are also available in a number of states to reflect, outside of a general rate proceeding, changes in major operating expenses which may be beyond the utility's control. For example, New Jersey, California, Virginia, Illinois and Tennessee have allowed surcharges for purchased water costs. California has allowed surcharges for power and certain other costs, and New York has allowed annual reconciliations for expenses such as power, fuel, chemicals and property taxes. Tennessee has allowed surcharges for power, chemical and Tennessee River Authority inspections fees.

Certain states have approved consolidated rates or single-tariff pricing policies. Consolidated rates or single-tariff pricing is the use of a unified rate structure for multiple water systems that are owned and operated by a single utility, but may or may not be contiguous or physically interconnected. The single-tariff pricing structure may be used fully or partially in a state, based on costs that are determined on a state-wide or intra-state regional basis, thereby moderating the impact of periodic fluctuations in local costs while lowering administrative costs for our customers. For states that do not employ single-tariffs, we may have multiple general rate cases filed at any given point in time. Examples of states that have adopted a full or partial single-tariff pricing policy include: Pennsylvania, New Jersey, Missouri, West Virginia, Kentucky, Indiana, Illinois and Iowa. Therefore, of our seven largest states, six have some form of single-tariff pricing. Pennsylvania also permits a blending of water and wastewater rate structures, which results in single-tariff pricing among water and wastewater systems.

In some states, the PUC has implemented mechanisms to enhance utility revenue stability in light of conservation initiatives, decreasing per capita consumption or other factors. Sometimes referred to as “decoupling,” these mechanisms, to some extent, separate recoverable revenues from volumes of water sold. For example, the state of California has decoupled revenues from water sold to help achieve the state initiative to reduce water usage by 20% by 2020. This progressive regulation enables utilities to encourage water efficiency, as revenues are not tied to sales. Similarly, New York has implemented a surcharge or credit based on the difference between actual net revenues and the revenues allowed in the most recent rate order.

California also has a multi-year cost of capital proceeding outside of the general rate case process. This proceeding authorizes the utility’s capital structure and authorized rates of return, as well as provides an automatic adjustment mechanism that triggers an adjustment to the authorized cost of capital if the Moody’s utility bond index changes beyond certain thresholds on an annual basis.

We pursue positive regulatory policies as part of our rate and revenue management program to enhance our ability to provide high quality, sustainable, cost effective service to customers, to facilitate efficient recovery of our costs and investments, and to ensure positive short-term liquidity and long-term profitability for a financially stable company which benefits our customers, employees and shareholders. The ability to seek regulatory treatment as described above does not guarantee that the state PUCs will accept our proposal in the context of a particular rate case, and these policies will reduce, but not eliminate, regulatory lag associated with traditional rate making processes. However, the Company strives to use these and other regulatory policies to address issues of regulatory lag wherever appropriate. It is also our strategy to expand their use in areas where they may not currently apply.

Customers

We have a large and geographically diverse customer base in our Regulated Businesses. An active customer is defined as a party with an active agreement to receive a specific service from a connection to our water or wastewater system as of the last business day of each monthly reporting period. Also, as in the case of apartment complexes, businesses and many homes, multiple individuals may be served by a single contract.

Residential customers make up the majority of our customer base in all of the states in which we operate. In 2014, residential customers accounted for 91.0% of the customers, 59.3% of the operating revenues and approximately 50.4% of the billed water sales of our Regulated Businesses. We also serve commercial customers, such as shops and businesses; industrial customers, such as large-scale manufacturing and production operations; and public authorities, such as government buildings and other public sector facilities, including schools. We also supply water to public fire hydrants for firefighting purposes, to private fire customers for use in fire suppression systems in office buildings and other facilities, as well as providing bulk water supplies to other water utilities for distribution to their own customers.

The vast majority of our regulated water customers are metered, which allows us to measure and bill for our customers’ water consumption, typically on a monthly basis. Our wastewater customers are billed either on a fixed charge basis or based on their water consumption.

In fiscal year 2014, no single Regulated Businesses customer accounted for more than 10% of our consolidated annual operating revenues.

The following table sets forth the number of water and wastewater customers (by customer class) for our Regulated Businesses as of December 31, 2014, 2013, and 2012:

	December 31,					
	2014		**2013**		**2012**	
	Water	**Wastewater**	**Water**	**Wastewater**	**Water**	**Wastewater**
Residential	2,813,715	117,602	2,813,601	117,584	2,783,354	95,576
Commercial	218,314	6,221	219,510	6,287	218,988	5,477
Industrial	3,793	17	3,822	16	3,894	12
Public & other	59,249	281	58,420	259	50,702	223
Total	3,095,071	124,121	3,095,353	124,146	3,056,938	101,288

Changes in customer growth in our Regulated Businesses is driven by (i) organic population growth or contraction in our authorized service areas; (ii) adding new customers to our regulated customer base by acquiring water and/or wastewater utility systems; and (iii) the sale of water to other community water systems. Generally, we add customers through tuck-ins of small and medium water and/or wastewater systems, in close geographic proximity to areas where we operate our Regulated Businesses, which we refer to as “tuck-ins.” We will continue to acquire water and wastewater utilities through tuck-ins. The proximity of tuck-in opportunities to our regulated footprint allows us to integrate and manage the acquired systems and operations primarily using our existing management and to achieve efficiencies. Historically, pursuing tuck-ins has been a fundamental part of our growth strategy. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and, if appropriate, certain markets in the United States where we do not operate our Regulated Businesses. We will also selectively seek larger acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing and new markets. Before entering new regulated markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate rate of return on our investment while maintaining our high standards for quality, reliability and compliance with environmental, health and safety and water quality standards.

Seasonality

Customer usage of water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for lawn irrigation and other outdoor uses. Summer weather that is cooler and/or wetter than average generally serves to suppress customer water demand and can reduce water operating revenues and operating income. Summer weather that is hotter and drier than average generally increases operating revenues and operating income. However, when weather conditions are extremely dry, and even if our water supplies are sufficient to serve our customers, our systems may be affected by drought-related warnings and/or water usage restrictions imposed by governmental agencies, thereby reducing customer usage and operating revenues. These restrictions may be imposed at a regional or state level and may affect our service areas, regardless of our readiness to meet unrestricted customer demands. Other factors affecting our customers’ usage of water include conservation initiatives, such as the use of more efficient household fixtures and appliances among residential consumers; declining household sizes in the United States; and changes in the economy and credit markets which could have significant impacts on our industrial and commercial customers’ operational and financial performance.

Competition

In our Regulated Businesses, we generally do not face direct competition in providing services in our existing markets because (i) we operate within those markets pursuant to certificates of public convenience and necessity (or similar authorizations) issued by state PUCs; and (ii) the high cost of constructing a new water and wastewater system in an existing market creates a barrier to market entry. Our Regulated Businesses do face competition from governmental agencies, other investor-owned utilities, large industrial customers with the ability to provide their own water supply/treatment process and strategic buyers that are entering new markets and/or making strategic acquisitions. Our largest investor-owned competitors, when pursuing acquisitions, based on a comparison of operating revenues and population served, are Aqua America Inc., United Water (owned by Suez Environnement), American States Water Co. and California Water Services Group. From time to time, we also face competition from infrastructure funds, multi-utility companies and others, such as Algonquen Power, Colix and others.

Supplies

Our water and wastewater operations require an uninterrupted supply of chemicals, energy and fuel, as well as maintenance material and other critical inputs. Many of these inputs are subject to short-term price volatility. Short-term price volatility is partially mitigated through existing procurement contracts, current supplier continuity plans, the regulatory rate setting process and rate mechanisms.

Because of our geographic diversity, we maintain relationships with many chemical, equipment and service suppliers in the marketplace, and we do not rely on any single entity for a significant amount of our supplies. We also employ a strategic sourcing process intended to ensure reliability in supply and long-term cost effectiveness. As a result of this process and our strong relationships with suppliers, we have historically been able to mitigate interruptions in the delivery of the products and services that are critical to our operations.

We typically have a combination of standby power generation or dual electric service feeds at key facilities, multiple water production facilities, emergency interconnections with adjacent water systems and finished water storage that keep our operations running in the event of a temporary loss of our primary energy supplies.

Condemnation

The potential exists that all or portions of our regulated subsidiaries' utility assets could be acquired by municipalities or other local government entities through one or more of the following methods:

- eminent domain (also known as condemnation);
- the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity was granted; and
- the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its certificate.

For example, condemnation threats have been made over the last several years with respect to the following systems:

- Mooresville, Indiana: The Town of Mooresville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooresville operations in August 2012. The Town originally offered $6.5 million, while Indiana-American's appraisal valued the system at $24.1 million. Following a June/July 2014 trial, the jury determined the Mooresville operations had a value of $20.3 million. As a result of the determination, the Town decided not to pursue the purchase.
- Monterey, California: A citizens group in Monterey, California (approximately 40,000 customer connections) submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of the assets of the California American Water's Monterey service district. In the election, the voters rejected the proposed feasibility study; although it is possible that similar initiatives may be pursued in the future.

The acquisition consideration related to such a transaction initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular franchise or charter. We believe our Regulated Businesses would be entitled to fair market value for any assets required to be sold, and we are of the opinion that fair market value would be in excess of the book value for such assets. For additional information, including with respect to ongoing condemnation efforts, see "Item 1A—Risk Factors—The assets of our Regulated Businesses are subject to condemnation through eminent domain."

We actively monitor condemnation activities that may affect us as soon as we become aware of them. We do not believe that condemnation poses a material threat to our ability to operate our Regulated Businesses.

Market-Based Operations

In addition to our Regulated Businesses, we also provide services to military bases, municipalities, industrial, commercial and residential customers that are not subject to economic regulation by state PUCs and do not require substantial infrastructure investment through our Market-Based Operations. For 2014, operating revenues for our Market-Based Operations was $354.7 million, or 11.8% of total operating revenues. In 2014, no single customer accounted for more than 10% of our consolidated annual operating revenues.

Our Market-Based Operations include three lines of business:

- Military Services Group, which enters into 50-year contracts with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases;
- Homeowner Services Group, which provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes, clogged or blocked sewer pipes inside and outside their accommodations and interior electric line repairs; and
- Contract Operations Group, which enters into contracts to operate and maintain water and wastewater facilities and other related services mainly for municipalities and the food and beverage industry.

In November 2014, we disposed of our Class B Biosolids line of business by selling our subsidiary Terratec Environmental Ltd ("Terratec"), which provided biosolids management, transport and disposal services to municipal and industrial customers in Ontario, Canada. In accordance with generally accepted accounting principles in the United States ("GAAP"), the results of Terratec are presented as discontinued operations and, as such, have been excluded from continuing operations and operating segment results for all periods presented. Unless otherwise noted, all information in this Form 10-K is presented on the basis of continuing operations. See Note 3 of the Consolidated Financial Statements for additional details on our discontinued operations.

Military Services Group

Our Military Services Group has eleven 50-year contracts with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases. All of our contracts with the U.S. government may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or non-performance by the subsidiary performing the contract. In either event, pursuant to the standard terms of the U.S. government contract termination provisions, we would be entitled to recover allowable costs that we may have incurred under the contract, plus the contract profit margin on incurred costs. The contract price for nine of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Two contracts are subject to annual price adjustments under a mechanism similar to price redetermination, called “Economic Price Adjustment.” During the contract term, we may make limited short-term capital investments under our contracts with the United States military. .

Homeowner Services Group

Our Homeowner Services Group, through our Service Line Protection Program, provides services to domestic homeowners and smaller commercial establishments to protect against the cost of interior and external water and sewer line repairs and interior electric line repairs. Our LineSaver™ program involves partnering with municipalities to offer our protection programs to homeowners serviced by the municipalities. As of December 31, 2014, our Homeowner Services Group has approximately 1.4 million customer contracts in 43 states and the District of Columbia.

Contract Operations Group

Our Contract Operations Group enters into public/private partnerships, including O&M, Design, Build and Operate (“DBO”) and Design, Build, Finance, Operate and Maintain (“DBFOM”) contracts for the provision of services to water and wastewater facilities for municipalities, the food and beverage industry and other customers. We are party to approximately 70 contracts, varying in size and scope, across the United States and Canada, with contracts ranging in terms from one to 30 years. Historically, we have made little long-term capital investment under these contracts with municipalities and other customers; instead we perform our services for a fee. Occasionally we provide our customers with financing for capital projects as part of a long-term operations and maintenance partnership.

Competition

We face competition in our Market-Based Operations from a number of service providers, including Veolia Environnement, American States Water, OMI and Southwest Water, particularly in the area of O&M contracting. Securing new O&M contracts is highly competitive, as these contracts are awarded based on a combination of customer relationships, service levels, competitive pricing, references and technical expertise. We also face competition in maintaining existing O&M contracts to which we are a party, as the municipal and industrial fixed term contracts frequently come up for renegotiation and are subject to an open bidding process.

Our Homeowner Services Group faces competition outside our existing footprint primarily from HomeServe USA and Utility Service Partners, Inc.

Industry Matters

Overview

The United States water and wastewater industry has two main sectors: (i) utility ownership, which involves supplying water and wastewater services to consumers; and (ii) general services, which involves providing water and wastewater related services to water and wastewater utilities and other customers on a contract basis.

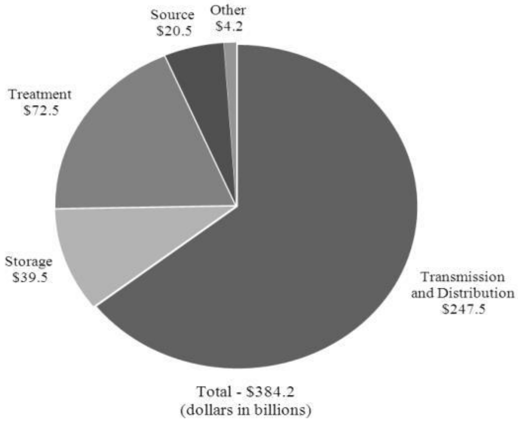
The utility sector includes investor-owned as well as municipal systems that are owned and operated by local governments or governmental subdivisions. The EPA estimates that government-owned systems account for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems. Investor-owned water and wastewater systems, including a small number of private companies and developers, account for the remainder of the United States water and wastewater systems. Growth of service providers in the investor-owned regulated utility sector is achieved through organic growth within a franchise area, the provision of bulk water service to other community water systems and/or acquisitions of entire systems, including small and medium water and wastewater systems that are in close geographic proximity to already established regulated operations, as well as acquisitions in new service areas.

According to the EPA, the utility segment of the United States water and wastewater industry is highly fragmented, with approximately 52,000 community water systems and approximately 15,000 community wastewater facilities. Over half of the community water systems are very small, serving a population of 500 or less.

This large number of relatively small, fragmented water systems as well as fragmented wastewater facilities may result in inefficiencies in the marketplace, since such utilities may not have the operating expertise, financial and technological capability or economies of scale to provide services or raise capital as efficiently as larger utilities. Larger utilities that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to both water and wastewater systems. In addition, water and wastewater utilities with large customer bases, spread across broad geographic regions, may more easily absorb the impact of significant variations in precipitation and temperatures, such as droughts, excessive rain and cool temperatures in specific areas. Larger utilities generally are able to spread support services over a larger customer base, thereby reducing the costs to serve each customer. Since many administrative and support activities can be efficiently centralized to gain economies of scale, companies that participate in industry consolidation have the potential to improve operating efficiencies, lower costs per unit and improve service at the same time.

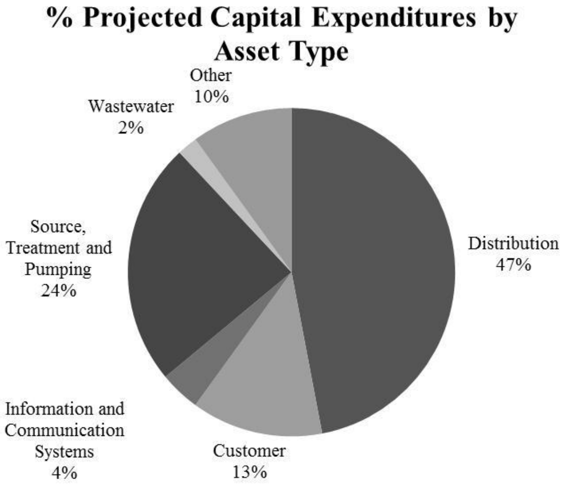
The utility sector is characterized by high barriers to entry, given the capital intensive nature of the industry. The aging water and wastewater infrastructure in the United States is in constant need of modernization and replacement. Increased regulations to improve water quality and the management of water and wastewater residuals' discharges, which began with passage of the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, have been among the primary drivers of the need for modernization. In 2007, the EPA estimated that approximately $390 billion of capital spending would be necessary over the then next 20 years to replace aging infrastructure and ensure quality wastewater systems across the United States. The EPA estimated that the nation's drinking water utilities need $384 billion in infrastructure investments for thousands of miles of pipe as well as thousands of treatment plants storage tanks, and other key assets between 2011 and 2030 to ensure the public health, security and economic well-being of our cities, towns and communities. Additionally, in 2013 the American Society of Civil Engineers' ("ASCE"), *Report Card for America's Infrastructure*, gave the water and wastewater infrastructure a grade of "D" due to the fact that much of the infrastructure is nearing the end of its useful life. The report concluded that there will be an investment gap between now and 2020 of $84 billion for drinking water and wastewater infrastructure.

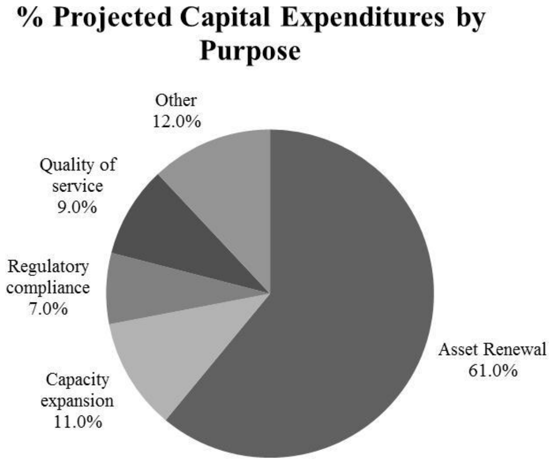
The following chart sets forth estimated capital expenditure needs from 2011 through 2030 for United States water systems:



Note: Numbers may not total due to rounding
Source: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment

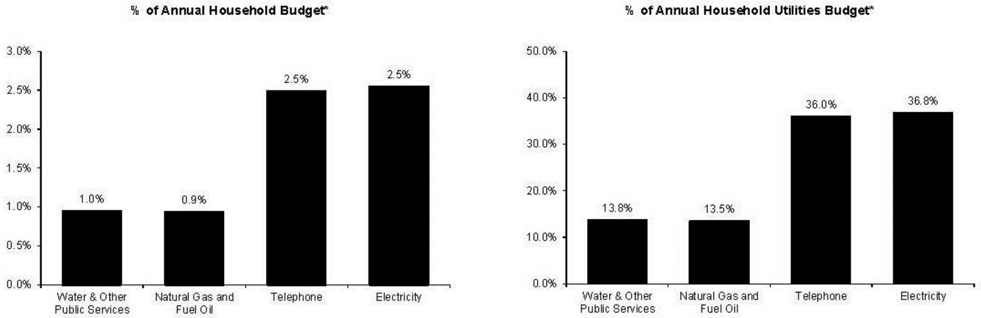
For 2015 to 2019, we estimate that Company-funded capital investment will amount to approximately $6.0 billion. Of the $6.0 billion, $5.2 billion is anticipated to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period of approximately $0.8 billion for acquisitions and for strategic capital. Strategic investments could include opportunities in the unregulated shale arena, or investments related to the water/energy nexus, and/or concession agreements or acquisitions. Our total capital plan for 2015 is estimated to be approximately $1.2 billion with approximately $1.1 billion allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth. The remaining $0.1 billion is expected to be spent for acquisitions and strategic investment purposes. The charts below set forth our estimated percentage of projected capital expenditures over the period of 2015 to 2019 for upgrading our infrastructure and systems by asset type and purpose of investment, respectively:





Water and Wastewater Rates

Water and wastewater rates in the United States are among the lowest for developed countries; and for most U.S. consumers, water and wastewater bills make up a relatively small percentage of household expenditures compared to other utility services. The following chart sets forth the relative cost of water and other public services, including trash and garbage collection and sewer maintenance, in the United States as a percentage of total household utility expenditures:



*Source: Bureau of Labor Statistics-Consumer Expenditures Survey, 2012 (assumes four person household)

Environmental, Health and Safety and Water Quality Regulation

Our water and wastewater operations, including the services provided under both our Regulated Businesses and Market-Based Operations, are subject to extensive United States federal, state and local laws and regulations, and in the case of our Canadian operations, Canadian laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat, discharge and dispose of wastewater. We are also subject to certain regulations regarding fire protection services in the areas we serve. These regulations include the Safe Drinking Water Act, the Clean Water Act and other federal, state, local and Canadian laws and regulations governing the provision of water and wastewater services, particularly with respect to the quality of water we distribute. We also are subject to various federal, state, local and Canadian laws and regulations governing the storage of hazardous materials, the management and disposal of hazardous and solid wastes, discharges to air and water, the cleanup of contaminated sites, dam safety and other matters relating to the protection of the environment and health and safety. State PUCs also set conditions and standards for the water and wastewater services we deliver.

Environmental, health and safety and water quality regulations are complex and change frequently. The overall trend has been that they have become more stringent over time. As newer or stricter standards are introduced, our capital and operating costs could increase. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation to which our Regulated Businesses are subject. In the past, we have generally been able to recover costs associated with compliance related to environmental, health and safety standards, but this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery.

We maintain an appropriate environmental policy including responsible business practices, compliance with environmental laws and regulations, effective use of natural resources, and stewardship of biodiversity. We believe that our operations are materially in compliance with, and in many cases surpass, minimum standards required by applicable environmental laws and regulations. Water samples from across our water systems are analyzed on a regular basis for compliance with regulatory requirements. Across the Company, we conduct over one million water quality tests each year at our laboratory facilities and plant operations, including continuous on-line instrumentations such as monitoring turbidity levels, disinfectant residuals and adjustments to chemical treatment based on changes in incoming water. For 2014, we achieved a score of greater than 99% for drinking water compliance and according to the EPA statistics, American Water’s performance has been far better than the industry average over the last several years. In fact, in 2014, American Water was 20 times better than the industry average for compliance with drinking water quality standards (Maximum Contaminant Levels) and 150 times better for compliance with drinking water monitoring and reporting requirements.

We participate in the Partnership for Safe Water, EPA’s voluntary program to meet more stringent goals for reducing microbial contaminants. With 68 of our 81 surface water plants receiving the program’s “Director” award, which recognizes utilities that have completed a comprehensive self- assessment report, created an action plan for continuous improvement and produces high quality drinking water, we account for approximately one-third of the plants receiving such awards nationwide. In addition, 63 American Water plants have received the “Five-Year Phase III” award, while 59 have been awarded the “Ten-Year Phase III” award. Additionally, three plants received the inaugural “Fifteen-Year Phase III” award, which recognizes plants that have met the Director award status for 15 years.

Safe Drinking Water Act

The Federal Safe Drinking Water Act and regulations promulgated thereunder establish national quality standards for drinking water. The EPA has issued rules governing the levels of numerous naturally occurring and man-made chemical and microbial contaminants and radionuclides allowable in drinking water and continues to propose new rules. These rules also prescribe testing requirements for detecting regulated contaminants, the treatment systems which may be used for removing those contaminants and other requirements. Federal and state water quality requirements have become increasingly stringent, including increased water testing requirements, to reflect public health concerns. To date, the EPA has set standards for approximately 90 contaminants and indicators for drinking water. Further, certain of our water systems are in the process of monitoring for 28 additional contaminants that are not currently regulated to help the EPA determine if any of them occur at high enough levels to warrant being regulated. There are thousands of other chemical compounds that are not regulated, many of which are lacking a testing methodology, occurrence data, health effects information and/or treatment technology.

To effect the removal or inactivation of microbial organisms, the EPA has promulgated various rules to improve the disinfection and filtration of drinking water and to reduce consumers’ exposure to disinfectants and byproducts of the disinfection process. In January 2006, the EPA promulgated the Long-term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproduct Rule. In October 2006, the EPA finalized the Ground Water Rule, applicable to water systems providing water from underground sources. The EPA also revised the monitoring and reporting requirements of the existing Lead and Copper Rule in 2007 and Congress enacted the Reduction of Lead in Drinking Water Act on January 4, 2011 regarding the use and introduction into commerce of lead pipes, plumbing fittings or fixtures, solder and flux. In 2012, the EPA finalized revisions to the Total Coliform Rule that were part of the mandate of a Federal Advisory Committee appointed to negotiate the changes. Most of the anticipated changes to the rule will not be effective until 2016. The EPA is actively considering regulations for a number of contaminants, including, strontium, hexavalent chromium, fluoride, nitrosamines, perchlorate, some pharmaceuticals and certain volatile organic compounds, but we do not anticipate that any of these regulations will require implementation in 2015. On July 1, 2014 the State of California implemented a standard making the primary drinking water standard 10 ug/L for hexavalent chromium. We are in compliance with this new standard.

Although it is difficult to project the ultimate costs of complying with the above or other pending or future requirements, we do not expect current requirements under the Safe Drinking Water Act to have a material impact on our operations or financial condition. In addition, capital expenditures and operating costs to comply with environmental mandates traditionally have been recognized by PUCs as appropriate for inclusion in establishing rates. As a result, we expect to fully recover the operating and capital costs resulting from these pending or future requirements.

Clean Water Act

The Federal Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and groundwater. In addition to requirements applicable to our wastewater collection systems, our operations require discharge permits under the National Pollutant Discharge Elimination System (“NPDES”) permit program established under the Clean Water Act. Pursuant to the NPDES program, the EPA or implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. We maintain the necessary permits and approvals for the discharges from our water and wastewater facilities. From time to time, discharge violations occur at our facilities, some of which result in fines. We do not expect any such violations or fines to have a material impact on our results of operations or financial condition.

Other Environmental, Health and Safety and Water Quality Matters

Our operations also involve the use, storage and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals which generate wastes that require proper handling and disposal under applicable environmental requirements. We also could incur remedial costs in connection with any contamination relating to our operations or facilities or our off-site disposal of wastes. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the United States Occupational Safety and Health Act and are subject to inspections thereunder. For further information, see “Business—Research and Development.”

Certain of our subsidiaries are involved in pending legal proceedings relating to environmental matters. These proceedings are described further in the section entitled “Item 3—Legal Proceedings.”

Research and Development

We established a formal research and development program in 1981 with the goal of improving water quality and operational effectiveness in all areas of our business. Our research and development personnel are located in New Jersey. In addition, our quality control and testing laboratory in Belleville, Illinois supports research through testing and analysis.

Since the formation of the EPA in 1970, we have collaborated with the agency to achieve effective environmental, health and safety and water quality regulation. This relationship has developed to include sharing of our research and national water quality monitoring data in addition to our treatment and distribution system optimization research. Our engagement with the EPA has helped us to achieve a leadership position for our company within the water and wastewater industry and has provided us with early insight into emerging regulatory issues and initiatives, thereby allowing us to anticipate and to accommodate our future compliance requirements.

Approximately one-quarter of our research budget is funded by competitively awarded outside research grants. Such grants reduce the cost of research and allow collaboration with leading national and international researchers. In 2014, we spent $3.6 million, including $0.8 million funded by research grants. Spending, net of research grant funding, amounted to $2.9 million and $2.8 million in 2013 and 2012, respectively.

We believe that continued research and development activities are critical for providing quality and reliable service at reasonable rates, and maintaining our leadership position in the industry, which provides us with a competitive advantage as we seek additional business with new and existing customers.

Support Services

Our American Water Works Service Company subsidiary provides shared services and corporate governance for our operating subsidiaries that gain economies of scale through central administration. These services are provided predominantly to our Regulated Businesses under the terms of contracts with these companies that have been approved by state PUCs, where necessary. These services, which are provided at cost, may include accounting, administration, business development, communications, corporate administrative, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, investor relations, legal, operations, procurement, rates support, security, risk management, water quality and research and development. These arrangements afford our operating companies professional and technical talent on an economical and timely basis. We also operate two national customer service centers, which are located in Alton, Illinois and Pensacola, Florida, that provide customer relations, operations and field service support.

Our security department provides oversight and governance of physical and information security throughout our operations and is responsible for designing, implementing, monitoring and supporting active and effective physical and information security controls. We have complied with EPA regulations concerning vulnerability assessments and have made filings to the EPA as required. Vulnerability assessments are conducted periodically to evaluate the effectiveness of existing security controls and serve as the basis for further capital investment in security for the facility. Information security controls are deployed or integrated to prevent unauthorized access to company information systems, assure the continuity of business processes dependent upon automation, ensure the integrity of our data and support regulatory and legislative compliance requirements. While we do not make public comments on the details of our security programs, we are in contact with federal, state and local law enforcement agencies to coordinate and improve the security of our water delivery systems and to safeguard our water supply.

Employee Matters

Approximately 50% of our workforce is represented by unions. We have 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. We have two union contracts beyond expiration that affect approximately 50 employees, all of which are actively working under the old agreements. During 2015, 24 of our local union contracts will expire.

On October 13, 2014, we entered into a settlement agreement with the Utility Workers Union of America (“UWUA”) designed to resolve a dispute between our company and the labor unions representing employees in the Regulated Businesses (“the Unions”). Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, we agreed to make a $10.0 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of our last, best and final offer. The majority of the distributions are expected to be used to reimburse employees for medical claims, which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates – Active Employees VEBA (the “VEBA Trust”), to which we previously have made contributions.

The Unions approved the settlement agreement on October 30, 2014, and the National Labor Relations Board (the “NLRB”) approved the settlement agreement on October 31, 2014. The NLRB, UWUA and the Company filed a joint stipulation to dismiss the petition for review. The Seventh Circuit voluntarily dismissed all the parties' appeals on December 16, 2014. The NLRB will dismiss the unfair labor practice charge pending on the national benefits dispute when we have complied with the settlement agreement.

Available Information

We are subject to the reporting requirements of the Exchange Act, as amended. We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (“SEC”). You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, *http://www.amwater.com*, shortly after we file or furnish the information to the SEC. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at their Public Reference Room, located at 100 F Street N.E., Washington, D.C. 20549. The phone number for information about the operation of the Public Reference Room is 1-800-732-0330 (if you are calling from within the United States), or 202-551-8090. Because we electronically file our reports, you may also obtain this information from the SEC internet website at *http://www.sec.gov*. You can obtain additional contact information for the SEC on their website.

The American Water corporate governance guidelines and the charters for each of the standing committees of the board of directors, together with the American Water Code of Ethics and additional information regarding our corporate governance, are available on our website, *http://www.amwater.com*, and will be made available, without charge, in print to any shareholder who requests such documents from Investor Relations Department, American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ, 08043.

ITEM 1A. RISK FACTORS

We operate in a market and regulatory environment that involves significant risks, many of which are beyond our control. In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position, results of operations or cash flows and liquidity.

Risks Related to Our Industry and Business

Our utility operations are subject to extensive economic regulation. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations.

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are economically regulated by state PUCs. Economic regulation affects the rates we charge our customers and has a significant impact on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, including, but not limited to, operating and maintenance costs, depreciation, financing costs and taxes and provide us the opportunity to earn an appropriate rate of return on our invested capital.

Our ability to successfully implement our business plan and strategy depends on the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. Our rate increase requests may not be approved, and any approval may not be given in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is sufficient to cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations; enable us to recover our investment; and provide us with an opportunity to earn an appropriate rate of return on our investment, in which case our business, financial condition, results of operations, cash flows and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital to the extent permitted by state PUCs. This could occur if certain conditions exist, including but not limited to, if water usage is less than anticipated in establishing rates, as billings to customers are, to a considerable extent, based on usage in addition to a base rate, or if our investments or expenses prove to be higher than was estimated in establishing rates.

Our operations and the quality of water we supply are subject to extensive environmental, water quality and health and safety laws and regulations. Compliance with increasingly stringent laws and regulations could impact our operating costs; and violations of such laws and regulations could subject us to substantial liabilities and costs.

Our water and wastewater operations are subject to extensive federal, state and local laws and regulations and, in the case of our Canadian operations, Canadian laws and regulations that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, discharge and dispose of wastewater. These requirements include the Clean Water Act of 1972, which we refer to as the Clean Water Act, and the Safe Drinking Water Act of 1974, which we refer to as the Safe Drinking Water Act, and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations.

In addition, state PUCs also set conditions and standards for the water and wastewater services we deliver. If we deliver water or wastewater services to our customers that do not comply with regulatory standards, or otherwise violate environmental laws, regulations or permits, or other health and safety and water quality regulations, we could incur substantial fines, penalties or other sanctions or costs, as well as damage to our reputation. In the most serious cases, regulators could reduce requested rate increases or force us to discontinue operations and sell our operating assets to another utility or to a municipality. Given the nature of our business which, in part, involves supplying water for human consumption, any potential non-compliance with, or violation of, environmental, water quality and health and safety laws or regulations would likely pose a more significant risk to us than to a company not similarly involved in the water and wastewater industry.

We incur substantial operating and capital costs on an ongoing basis to comply with environmental, water quality and health and safety laws and regulations. These laws and regulations, and their enforcement, generally have become more stringent over time, and new or stricter requirements could increase our costs. Although we may seek to recover ongoing compliance costs in our rates, there can be no guarantee that the various state PUCs or similar regulatory bodies that govern our Regulated Businesses would approve rate increases that would enable us to recover such costs or that such costs will not materially and adversely affect our financial condition, results of operations, cash flows and liquidity.

We may also incur liabilities if, under environmental laws and regulations, we are required to investigate and clean up environmental contamination at our properties, including potential spills of hazardous chemicals, such as chlorine, which we use to treat water, or at off-site locations where we have disposed of waste or caused an adverse environmental impact. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs and could adversely affect our financial condition, results of operations, cash flows and liquidity. Such remediation costs may not be covered by insurance and may make it difficult for us to secure insurance at acceptable rates in the future.

Limitations on availability of water supplies or restrictions on our use of water supplies as a result of government regulation or action may adversely affect our access to sources of water, our ability to supply water to customers or the demand for our water services.

Our ability to meet the existing and future demand of our customers depends on the availability of an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights (determined by legislation or court decisions) and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing-flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements, which can change from time to time, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water. For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with an October 20, 2009 cease and desist order of the California State Water Resources Control Board (the “2009 Order”) that our subsidiary, California-American Water Company (“Cal Am”), significantly decrease its diversions from the Carmel River in accordance with a reduction schedule running through December 31, 2016 (the "2016 Deadline"). We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. We cannot predict whether Cal Am will be able to secure alternative sources of water, or if Cal Am will be exposed to liabilities if it is unable to meet the 2016 Deadline under the 2009 Order. If Cal Am or any of our other subsidiaries are unable to secure an alternative source of water, or if other adverse consequences result from the events described above, our business, financial condition, results of operations and cash flows could be adversely affected. See Part I, Item 3, “Legal Proceedings” in this report that includes additional information regarding the Cal Am matter.

Service disruptions caused by severe weather conditions or natural disasters may disrupt our operations and economic conditions may reduce the demand for water services, either of which could adversely affect our financial condition and results of operations.

Service interruptions due to severe weather events are possible across all our service areas. These include winter storms and freezing conditions, high wind conditions, hurricanes, tornados, earthquakes, landslides coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, and severe electrical storms. Weather events such as these may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. In October 2012, our east coast subsidiaries were affected by Hurricane Sandy. The most significant impact to our business was caused by the widespread power outages caused by the storm’s heavy winds, rain and snow. In addition, adverse economic conditions can cause our customers, particularly industrial customers, to curtail operations. A curtailment of operations by an industrial customer would typically result in reduced water usage. In more severe circumstances, the decline in usage could be permanent. Any decrease in demand resulting from difficult economic conditions could adversely affect our financial condition and results of operations.

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas. If a regional drought were to occur, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. For example, as a result of the reduced rain fall and overall dry conditions throughout the state of California, Cal Am has been closely monitoring its owned and purchased water supplies. On January 17, 2014, the Governor of California issued a drought declaration asking Californians to reduce their water use by 20%. On April 25, 2014, the Governor issued an Executive Order addressing the drought and on July 15, 2014 the State Water Resources Control Board approved mandatory statewide water restrictions. The CPUC issued a resolution requiring Cal Am and all other regulated water providers to abide by the State Water Resources Control Board restrictions and requirements. While expenses incurred in implementing water conservation and rationing plans in Cal Am’s districts are generally recoverable provided the CPUC determines they were reasonable, Cal Am cannot assure that such expenses will, in fact, be fully recovered. Moreover, reductions in water consumption, including those resulting from installation of equipment or changed consumer behavior, may persist even after drought restrictions are repealed and the drought has ended, which could adversely affect our business, financial condition, results of operations and cash flows.

Some scientific experts are predicting a worsening of weather volatility in the future. Changing severe weather patterns could require additional expenditures to reduce the risk associated with any increasing storm, flood and drought occurrences. The issue of climate change is receiving increased attention worldwide. Many climate change predictions, if true, present several potential challenges to water and wastewater utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations.

Regulatory and environmental risks associated with the collection, treatment and disposal of wastewater may impose significant costs.

The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve significant environmental risks. If collection, treatment or disposal systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. Moreover, if we are deemed liable for any damage caused by overflow or disposal operations, our losses might not be covered by insurance, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

The current regulatory rate setting structure may result in a significant delay, or "regulatory lag," from the time that we invest in infrastructure improvements, incur increased operating expenses or experience declining water usage, to the time at which we can address these events through the rate case application process; our inability to minimize regulatory lag could adversely affect our business.

There is typically a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating expense increase and the time when those costs are reflected in rates. In addition, billings permitted by state PUCs typically are, to a considerable extent, based on the volume of water usage in addition to a minimum base rate. Thus, we may experience a regulatory lag between the time our revenues are affected by declining usage and the time we are able to adjust the rate per gallon of usage to address declining usage. Our inability to reduce this regulatory lag could have an adverse effect on our financial condition, results of operations, cash flows and liquidity.

We endeavor to reduce regulatory lag by pursuing positive regulatory policies. For example, seven state PUCs permit rates to be adjusted outside of the rate case application process through surcharges that address certain capital investments, such as replacement of aging infrastructure. These surcharges are adjusted periodically based on factors such as project completion or future budgeted expenditures, and specific surcharges are eliminated once the related capital investment is incorporated in new PUC approved rates. Other examples of such programs include states that allow us to increase rates for certain cost increases that are beyond our control, such as purchased water costs or property or other taxes, or power, conservation, chemical or other expenditures. These surcharge mechanisms enable us to adjust rates in less time after costs have been incurred than would be the case under the rate case application process. While these programs have been a positive development and we continue to seek expansion of programs to mitigate regulatory lag, some state PUCs have not approved such programs. The PUC may not adopt any surcharge programs and existing programs may not continue in their current form, or at all. Furthermore, no state has adopted surcharge programs that include all elements of cost that may change between general rate proceedings. Although we intend to continue our efforts to expand state PUC approval of surcharges to address issues of regulatory lag, our efforts may not be successful, in which case our business, financial condition, results of operations, cash flows and liquidity may be adversely affected.

Our Regulated Businesses require significant capital expenditures and may suffer if we fail to secure appropriate funding to make investments, or if we experience delays in completing major capital expenditure projects.

The water and wastewater utility business is capital intensive. We invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2014, we invested $1.0 billion in net Company-funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems could increase in the future. We fund capital improvement projects using cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and issuances of long-term debt and equity securities. We may not be able to access the debt and equity capital markets, when necessary or desirable to fund capital improvements on favorable terms or at all.

In addition, we could be limited in our ability to both pursue growth and pay dividends in accordance with our dividend policy. In order to fund construction expenditures, acquisitions, principal and interest payments on our indebtedness, and dividends at the level currently anticipated under our dividend policy, we expect that we will need additional financing. We expect cash from operating activities, after the distribution of dividends, to fund a portion of our capital expenditures.

The ability to obtain financing at reasonable rates is contingent upon our credit ratings and general market conditions. If we do not obtain sufficient financing, we could be unable to maintain our existing property, plant and equipment, fund our capital investment strategies, meet our growth targets and expand our rate base to enable us to earn satisfactory future returns on our investments. Even with adequate financial resources to make required capital expenditures, we face the additional risk that we will not complete our major capital projects on time, as a result of construction delays, permitting delays, environmental restrictions, or other obstacles. Each of these outcomes could adversely affect our financial condition and results of operations.

Weather conditions could adversely affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to increased water usage for irrigation systems, swimming pools, cooling systems and other applications. Throughout the year, and particularly during typically warmer months, demand tends to vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Market conditions may unfavorably impact the value of benefit plan assets and liabilities, as well as assumptions related to the benefit plans, which may require us to provide significant additional funding.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. The value of these assets is subject to market fluctuations, which may cause investment returns to fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets can increase the funding requirements under our pension and postretirement benefit plans. Additionally, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. If interest rates decrease, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, such as increases in life expectancy assumptions may also increase our funding requirements. Future increases in pension and other postretirement costs as a result of reduced plan assets may not be fully recoverable in rates, in which case our results of operations and financial position could be negatively affected.

In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension and postretirement plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased, which could adversely affect our financial position and results of operations.

Our indebtedness could affect our business adversely and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flows to satisfy our liquidity needs.

As of December 31, 2014, our indebtedness (including preferred stock with mandatory redemption requirements) was $6 billion, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital requirements or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at variable rates;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- impairing our access to the capital markets for debt and equity;
- likely requiring that an increasing portion of our cash flows from operations be dedicated to the payment of the principal and interest on our debt, thereby reducing funds available for future operations, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our revolving credit facility or issue new debt securities. Moreover, additional borrowings may be required to refinance outstanding indebtedness. Debt maturities and sinking fund payments in 2015, 2016 and 2017 are $61.1 million, $53.4 million and $572.8 million, respectively. We can provide no assurance that we will be able to access the debt capital markets on favorable terms, if at all. Moreover, if new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

We will depend primarily on operations to fund our expenses and to pay the principal and interest on our outstanding debt. Therefore, our ability to pay our expenses and satisfy our debt service obligations depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors largely beyond our control. If we do not have sufficient cash flows to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, sell assets, borrow additional funds or sell additional equity. In addition, if our business does not generate sufficient cash flows from operations, or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to changes in our business, which could cause our operating results and prospects to be affected adversely.

Contamination of our sources of water could result in service interruptions and exposure to substances not typically found in potable water supplies, and subject our subsidiaries to reduction in usage, governmental enforcement actions, private litigation and responsive obligations.

The water supplies that flow into our treatment plants and are then delivered into our distribution system are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as perchlorate and methyl tertiary butyl ether, and possible terrorist attacks. If one of our water supplies is contaminated, depending on the nature of the contamination, we may have to take responsive actions that could include (1) continuing limited use of the water supply under a “Do Not Use” protective order that enables continuation of basic sanitation and essential fire protection, or (2) interrupting the use of that water supply and locating an adequate supply of water from another water source, including, in some cases, through the purchase of water from a third-party supplier. If service is disrupted and we are unable to access a substitute water supply in a cost-effective manner, our financial condition, results of operations, cash flows, liquidity and reputation may be adversely affected. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. We might not be able to recover costs associated with treating or decontaminating water supplies through rates, or recovery of these costs may not occur in a timely manner. Moreover, we could be subject to claims for damages arising from government enforcement actions or toxic tort or other lawsuits arising out of interruption of service or human exposure to hazardous substances in our drinking water supplies.

In this regard, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal into the Elk River near the WVAWC treatment plant intake in Charleston, West Virginia.

WVAWC has and may continue to incur significant costs in responding to this incident and may not be able to recover such costs through rates or from insurers. Even if recovery is possible, it may not occur in a timely manner. Government investigations relating to the Freedom Industries spill have been initiated, state laws have been enacted, state and federal legislatures are considering changes to existing laws or rules associated with new laws, and 58 lawsuits have been filed to date against WVAWC and, in a few cases, against us or another of our affiliates. While the Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company and WVAWC believe they and other Company affiliates have valid, meritorious defenses to the lawsuits, WVAWC will incur defense costs that may not be recoverable. Moreover, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations. See Part I, Item 3, “Legal Proceedings” in this report for additional information regarding the WVAWC matter.

In addition, we are a party to litigation in the normal course of business. Since we engage in providing drinking water to our customers, failures can result in substantial injury or damage to our customers, employees or others and we could be exposed to substantial claims and litigation. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and may be brought by our customers or third parties.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavorable rulings can and do occur. Pending or future claims against us, to the extent we are not insured against a loss or our insurer fails to provide coverage, could have a material adverse impact on our business, financial condition, and results of operations.

We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. Our insurance programs have varying coverage limits, exclusions and maximums, and insurance companies may seek to deny claims we might make. Generally, our insurance policies cover property damage, worker’s compensation, employer’s liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Although in the past we have been generally able to cover our insurance needs, there can be no assurances that we can secure all necessary or appropriate insurance in the future, or that such insurance can be economically secured. For example, catastrophic events can result in decreased coverage limits, more limited coverage, increased premium costs or deductibles.

Work stoppages and other labor relations matters could adversely affect our results of operations.

Approximately 50% of our workforce is represented by unions. We have 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. We might not be able to renegotiate labor contracts on terms that are fair to us. Any negotiations or dispute resolution processes undertaken in connection with our labor contracts could be delayed or affected by labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages, and our failure to obtain favorable labor contract terms during renegotiations may adversely affect our financial condition, results of operations, cash flows and liquidity.

While we have developed contingency plans to be implemented as necessary if a work stoppage or strike does occur, a strike or work stoppage may have a material adverse impact on our results of operations, financial position or cash flows.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own 89 dams. A failure of any of those dams could result in personal injury and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

We also are required from time to time to decommission, repair or upgrade the dams that we own. The cost of such repairs or upgrades can be and has been material. The federal and state agencies that regulate our operations may adopt rules and regulations requiring us to dismantle our dams, which also could entail material costs. Although in most cases, the PUC has permitted recovery of expenses and capital investment related to dam rehabilitation, we might not be able to recover costs of repairs, upgrades or dismantling through rates in the future. The inability to recover these costs or delayed recovery of the costs as a result of regulatory lag can affect our financial condition, results of operations, cash flows and liquidity.

Any failure of our network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

Our operating subsidiaries distribute water and collect wastewater through an extensive network of pipes and storage systems located across the United States. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water and wastewater delivery requirements prescribed by government regulators, including state PUCs with jurisdiction over our operations, and adversely affect our financial condition, results of operations, cash flows, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future. Moreover, to the extent such business interruptions or other losses are not covered by insurance, they may not be recovered through rate adjustments.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.

In addition to cash from operations, we rely on our revolving credit facility, commercial paper programs, and the capital markets to satisfy our liquidity needs. In this regard, our principal external source of liquidity is our revolving credit facility. We regularly use our commercial paper program as a principal source of short-term borrowing due to the generally more attractive rates we obtain in the commercial paper market. However, disruptions in the capital markets could limit our ability to access capital. While our credit facility lending banks have met all of their obligations, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry’s financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. In order to meet our short-term liquidity needs, particularly if borrowings through the commercial paper market are unavailable, we maintain a $1.25 billion revolving credit facility. Under the terms of our revolving credit facility, commitments of $70 million mature in October 2017 and $1.18 billion mature in October 2018. Our inability to maintain, renew or replace these commitments could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity.

American Water Capital Corp. (“AWCC”), our financing subsidiary, had no outstanding borrowings under the revolving credit facility and $36.5 million of outstanding letters of credit under the credit facility as of February 19, 2015. AWCC had $502.9 million of outstanding commercial paper as of February 19, 2015. Our lenders may not meet their existing commitments and we may not be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Longer term disruptions in the capital and credit markets as a result of uncertainty, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital and credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures.

Any impediments to our access to the capital markets or failure of our lenders to meet their commitments that result from financial market disruptions could expose us to increased interest expense, require us to institute cash conservation measures or otherwise adversely affect our business, financial condition, results of operations, cash flows, and liquidity.

Changes in laws and regulations over which we have no control and changes in certain agreements can significantly affect our business and results of operations.

New legislation, regulations, government policies or court decisions can materially affect our operations. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as regulators and the policies of the regulatory agencies that they serve. New laws or regulations, new interpretations of existing laws or regulations, changes in agency policy, including those made in response to shifts in public opinion, or conditions imposed during the regulatory hearing process could have the following consequences, among others:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- restricting our ability to terminate our services to customers who owe us money for services previously provided or limiting our bill collection efforts;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to buy or sell assets or issue securities;
- changing regulations that affect the benefits we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
- making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- placing limitations, prohibitions or other requirements with respect to the sharing of information and participation in transactions by or between a regulated subsidiary and us or our other affiliates, including our service company and any of our other subsidiaries;
- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and
- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

Any of the foregoing consequences could have an adverse effect on our business, financial condition, results of operations, cash flows and liquidity.

An important part of our growth strategy is the acquisition of water and wastewater systems. Any further acquisitions we undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

An important element of our growth strategy is the acquisition of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to expand our business.

The negotiation of potential acquisitions as well as the integration of acquired businesses with our existing operations could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- issuances of our equity securities;
- incurrence of debt, contingent liabilities, environmental liabilities and assumption of liabilities of an acquired business, including liabilities that were unknown at the time of acquisition;
- seeking recovery of acquisition premiums
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets at values that ultimately may be subject to impairment charges if we do not realize the initially recorded value;
- fluctuations in quarterly results;
- other acquisition-related expenses;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements; and
- difficulties assimilating personnel, services and systems.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business, pay dividends and to comply with regulatory requirements. The businesses we acquire in the future may not achieve anticipated sales and profitability, and any difficulties we encounter in the integration process could interfere with our operations, reduce our operating margins and adversely affect our internal control over financial reporting.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. If consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to expand through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities adjacent to or near our existing service areas, thereby impairing our ability to geographically expand the affected service areas. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service areas. Our growth could be hindered if we are not able to compete effectively for new companies and/or service areas with other companies or strategic and financial buyers that have lower costs of operations. Any of these risks may adversely affect our business, financial condition, and results of operations.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.

Our total assets include $1.2 billion of goodwill at December 31, 2014. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003 and the acquisition of E'Town Corporation by a predecessor to our previous owner in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and other intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These market events could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, market price performance of our common stock that composes unfavorably to our peer companies, or decreases in control premiums. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or our interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

The assets of our Regulated Businesses are subject to condemnation through eminent domain.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized efforts may arise from time to time in one or more of the service areas in which our

Regulated Businesses operate to convert our assets to public ownership and operation through exercise of the governmental power of eminent domain. Should a municipality or other government subdivision or a citizen group seek to acquire our assets through eminent domain, either directly or indirectly as a result of a citizen petition we may resist the acquisition. For example, condemnation threats have been made in the Chicago, Illinois area where the municipalities of Homer Glen (approximately 6,000 customer connections) and Bolingbrook (approximately 23,000 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities (approximately 29,200 customer connections) formed a water agency to pursue eminent domain with respect to our water pipeline that serves those five communities and made an offer of $37.6 million for the pipeline. The water agency filed an eminent domain lawsuit in January 2013 that is still pending.

Contesting an exercise of condemnation through eminent domain, or responding to a citizen petition, may result in costly legal proceedings and may divert the attention of the affected Regulated Businesses' management from the operation of its business. Moreover, our efforts to resist the condemnation may not be successful.

If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain, there is a risk that we will not receive adequate compensation for the business, that we will not be able to keep the compensation, or that we will not be able to divest the business without incurring significant one-time charges.

For information regarding specific condemnation threats made against us that were recently concluded see Item 1, "Business—Condemnation."

We rely on technology to facilitate the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our technology systems, particularly our information technology ("IT") systems, are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. For example, we depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. While we recently completed the business transformation implementation for our Enterprise Resource Planning ("ERP"), Enterprise Asset Management ("EAM") and Customer Information ("CIS") systems, a number of our mission and business critical IT systems are older, such as our SCADA (supervisory control and data acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cybersecurity incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

These events may result in physical and electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of outdated existing technology to enable us to continue to operate at our current level of efficiency.

We may be subject to physical and/or cyber attacks.

As operators of critical infrastructure, we may face a heightened risk of physical and/or cyber attacks. Our water and wastewater systems may be vulnerable to disability or failures as a result of physical or cyber acts of war or terrorism, vandalism or other causes. Our corporate and information technology systems may be vulnerable to unauthorized access due to hacking, viruses, acts of war or terrorism, and other causes.

If, despite our security measures, a significant physical attack or cyber breach occurred, we could have our operations disrupted, property damaged, and customer information stolen; experience substantial loss of revenues, response costs, and other financial loss; and be subject to increased regulation, litigation, and damage to our reputation, any of which could have a negative impact on our business and results of operations.

We may not be able to fully utilize our U.S. and state net operating loss carryforwards.

As of December 31, 2014, we had U.S. federal and state net operating loss ("NOL") carryforwards of approximately $1.0 billion and $542 million, respectively. Our federal NOL carryforwards begin to expire in 2028, and our state NOL carryforwards will expire between 2015 and 2033. Our ability to utilize our NOL carryforwards is primarily dependent upon our ability to generate sufficient taxable income. Moreover, because our previous owner's divestiture of its stock was considered an "ownership change" under Section 382 of the Internal Revenue Code, the amount of NOL carryforwards that may be utilized in any year is limited. Our management believes the federal NOL carryforwards are more likely than not to be recovered and therefore currently require no valuation allowance. At December 31, 2014, $63.1 million of the state NOL carryforwards have been offset by a valuation allowance because we do not believe these NOLs will more likely than not be realized in the future, and we have, in the past, been unable to utilize certain of our NOLs. The establishment or increase of a valuation allowance in the future would reduce our deferred income tax assets and our net income.

Our actual results may differ from those estimated by management in making its assessment as to our ability to use the NOL carryforwards. Moreover, changes in income tax laws, the economy and the general business environment could affect the future utilization of the NOL carryforwards. If we are unable to fully utilize our NOL carryforwards to offset taxable income generated in the future, our financial position, results of operations and cash flows could be materially adversely affected.

We (excluding our regulated subsidiaries) provide performance guarantees with respect to certain obligations of our Market-Based Operations, including financial guarantees or deposits, to our public-sector and public clients, which may seek to enforce the guarantees if our Market-Based Operations do not satisfy these obligations.

Under the terms of some of our agreements for the provision of services to water and wastewater facilities with municipalities, other governmental entities and other customers, American Water (excluding our regulated subsidiaries) provides guarantees of specified performance obligations of our Market-Based Operations, including financial guarantees or deposits. In the event our Market-Based Operations fail to perform these obligations, the entity holding the guarantees may seek to enforce the performance commitments against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flows, and liquidity could be adversely affected.

At December 31, 2014, we had remaining performance commitments as measured by remaining contract revenue totaling approximately $865.8 million and this amount is likely to increase if our Market-Based Operations expand. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms.

Our Market-Based Operations' long-term contracts with the Department of Defense may be terminated for the convenience of the U.S. Government and are subject to periodic contract price redetermination.

All of our contracts with the Department of Defense for the operation and maintenance of water and wastewater systems may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. Government or as a result of default or non-performance by the subsidiary performing the contract. In addition, the contract price for each of these military contracts is typically subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Any early contract termination or unfavorable price redetermination could adversely affect our results of operations.

We operate a number of water and wastewater systems under O&M contracts and face the risk that the owners of those systems may fail to provide capital to properly maintain those systems, which may negatively affect us as the operators of the systems.

We operate a number of water and wastewater systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, and it is generally the responsibility of the owner of the system to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Our Market-Based Operations are party to long-term contracts to operate and maintain water and wastewater systems under which we may incur costs in excess of payments received.

Some of our Market-Based Operations enter into long-term contracts under which they agree to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities, which includes specified major maintenance for some of those facilities, in exchange for an annual fee. Our Market-Based Operations are generally subject to the risk that costs associated with operating and maintaining the facilities, including production costs such as purchased water, electricity, fuel and chemicals used in water treatment, may exceed the fees received from the municipality or other contracting party. Losses under these contracts or guarantees may adversely affect our financial condition, results of operations, cash flows and liquidity.

Our inability to efficiently optimize and stabilize our recently implemented business transformation project, could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

Over the past several years, we have implemented a "business transformation" project, which is intended to improve our business processes and upgrade our legacy core information technology systems. This multi-year, enterprise-wide initiative supports our broader strategic initiatives. The project is intended to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service capabilities. The scale and costs associated with the business transformation project were significant. Any technical or other difficulties in optimizing and stabilizing this initiative may increase the costs of the project and have an adverse effect on our operations and reporting processes, including our internal control over financial reporting. In August 2012, our new business systems associated with Phase I of our business transformation project became operational. Phase I consisted of the roll-out of the ERP, which encompassed applications that handle human resources, finance, and supply chain/procurement management activities. In the second quarter of 2013, we implemented Phase II of our business transformation project in a number of our regulated subsidiaries. In the fourth quarter of 2013, Phase II of our business transformation project was implemented in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which manages an asset's lifecycle, and a Customer Information system, which contains all billing and collections data pertaining to American Water's customers for our Regulated segment. Although efforts have been made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

As we make adjustments to our operations, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. Further, we may not realize anticipated cost improvements and greater efficiencies from the project.

We operate numerous information technology systems that are in various stages of integration, sometimes leading to inefficiencies. Therefore, delays in stabilization and optimization of the business transformation project will also delay cost savings and efficiencies expected to result from the project. We may also experience difficulties consolidating our current systems, moving to a common set of operational processes and implementing a successful change management process. These difficulties may impact our ability to meet customer needs efficiently. Any such delays or difficulties may have a material and adverse impact on our business, client relationships and financial results.

Our business has inherently dangerous workplaces. If we fail to maintain safe work sites, we can be exposed to financial losses as well as penalties and other liabilities.

Our safety record is critical to our reputation. We maintain health and safety standards to protect our employees, customers, vendors and the public. Although we intend to adhere to such health and safety standards it is unlikely that we will be able to avoid accidents at all times.

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, chemicals and other regulated materials. On many sites we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase employee turnover and raise our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, and results of operations.

In addition, our operations can involve the handling and storage of hazardous chemicals, which, if improperly handled, stored or disposed of, could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure we implement effective health, safety, and environmental work procedures throughout our organization, including construction sites and maintenance sites, the failure to comply with such regulations could subject us to liability.

Our continued success is dependent upon our ability to hire, retain, and utilize qualified personnel.

The success of our business is dependent upon our ability to hire, retain, and utilize qualified personnel, including engineers, craft personnel, and corporate management professionals who have the required experience and expertise. From time to time, it may be difficult to attract and retain qualified individuals with the expertise and in the timeframe demanded for our business needs. In certain geographic areas, for example, we may not be able to satisfy the demand for our services because of our inability to successfully hire and retain qualified personnel.

In addition, as some of our key personnel approach retirement age, we need to have appropriate succession plans in place and to successfully implement such plans. If we cannot attract and retain qualified personnel or effectively implement appropriate succession plans, it could have a material adverse impact on our business, financial condition, and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our properties consist of transmission, distribution and collection pipes, water and wastewater treatment plants, pumping wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, software rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water, and the collection and treatment of wastewater. Substantially all of our properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of our mortgage bonds. We lease our corporate offices, equipment and furniture, located in Voorhees, New Jersey from certain of our wholly-owned subsidiaries. These properties are utilized by our directors, officers and staff in the conduct of the business.

Our regulated subsidiaries own, in the states in which they operate, transmission, distribution and collection pipes, pump stations, treatment plants, storage tanks, reservoirs and related facilities. A substantial acreage of land is owned by our Regulated Businesses, the greater part of which is located in watershed areas, with the balance being principally sites of pumping and treatment plants, storage reservoirs, tanks and standpipes. Additionally, properties and facilities including such items as well fields, tanks, offices and operation centers are also leased by our regulated subsidiaries. Our Market-Based Operations’ properties consist mainly of office furniture and IT equipment and are primarily located in New Jersey. Approximately 51% of our properties are located in New Jersey and Pennsylvania.

We maintain property insurance against loss or damage to our properties by fire or other perils, subject to certain exceptions. For insured losses, we are self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

We believe that our properties are generally maintained in good operating condition and in accordance with current standards of good water and wastewater works industry practice, and units of property are replaced as and when necessary.

ITEM 3. LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

In 1995, the California Water Resources Control Board (the "Water Resources Control Board") issued an administrative order (the “1995 Order”) to Cal Am requiring Cal Am to implement an alternative water supply in lieu of diversions from the Carmel River. In response to claims that Cal Am had not diligently pursued establishing an alternative water supply as required by the 1995 Order, the Water Resources Control Board adopted the 2009 Order, finding that Cal Am has not sufficiently implemented actions to terminate its unpermitted diversions from the Carmel River as required by the 1995 Order. The 2009 Order requires, among other things, that Cal Am significantly decrease its yearly diversions from the Carmel River according to a set reduction schedule running from the date the 2009 Order was adopted until December 31, 2016, at which point all unpermitted diversions must end. Failure to effect the decrease in diversions mandated by the 2009 Order could result in substantial penalties. We can provide no assurances that Cal Am will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order or that any such compliance will not result in material additional costs or obligations to us. As noted below, Cal Am does not expect to have sufficient alternative sources of water available by the December 31, 2016 deadline, and is engaged in discussions with the Water Resources Control Board to extend the deadline.

On December 2, 2010, the California Public Utilities Commission ("CPUC") approved the Regional Desalination Project (the "RDP"), involving the construction of a desalination facility in the City of Marina, north of Monterey. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among the Marina Coast Water District ("MCWD"), the Monterey County Water Resources Agency ("MCWRA") and Cal Am. The desalination facility was to be constructed and owned by MCWD, and MCWRA was to construct the wells that were to supply water to the desalination facility. The RDP was intended, among other things, to fulfill Cal Am's obligations under the 1995 Order and the 2009 Order, in addition to other obligations.

The RDP was subject to delay due to, among other things, funding delays and investigations and inquiries initiated by public authorities relating to an alleged conflict of interest concerning a former member of the MCWRA Board of Directors (the "Former Director"). On July 7, 2011, MCWRA advised MCWD and Cal Am that the Agreements were void as a result of the conduct of the Former Director. Subsequently, on August 12, 2011, Cal Am advised MCWD and MCWRA that they had defaulted in performance of certain financing obligations under the Water Purchase Agreement. By letter delivered to MCWD and MCWRA on September 28, 2011, Cal Am terminated the Agreements as a result of MCWRA's anticipatory repudiation of the Agreements by stating they were void. On January 17, 2012, following unsuccessful mediation efforts among the parties, Cal Am publicly announced that it had withdrawn support of the RDP. Disputes among the parties with respect to the RDP continued thereafter. On July 12, 2012, the CPUC closed the proceedings relating to the RDP and stated that it would examine the recoverability of costs related to the RDP in other proceedings. Cal Am plans to file a new application seeking recovery of legal costs relating to the RDP after any pending legal disputes are resolved.

In December 2012, Cal Am, MCWRA and the County of Monterey entered into a settlement agreement under which Cal Am will forgive approximately $1.9 million previously loaned by Cal Am to MCWRA in connection with the RDP, and Cal Am will make additional payments of up to approximately $1.5 million to MCWRA. The settlement agreement, the debt forgiveness and the additional payments are conditioned on CPUC approval, including approval of Cal Am rate recovery of the debt forgiveness and the additional payments. Cal Am and MCWD also entered into a tolling agreement, which, as extended by subsequent agreements, toll applicable statutes of limitations and the deadline for commencement of litigation regarding Cal Am's claims until June 30, 2015. The MCWRA settlement agreement and the tolling and standstill agreement do not affect litigation initiated by Cal Am seeking a determination regarding the validity of the Agreements, which is described below. On May 24, 2013, Cal Am filed an application with the CPUC for approval of the settlement agreement and rate recovery on Cal Am's debt forgiveness and additional payments to MCWRA under the settlement agreement. The application is pending.

On October 4, 2012, Cal Am filed a Complaint for Declaratory Relief in the Monterey County Superior Court (subsequently transferred to the San Francisco Superior Court) against MCWRA and MCWD, seeking a determination by the Court as to whether the Agreements are void as a result of the Former Director's alleged conflict of interest, or remained valid. A trial on the matter was held on December 2-5, 2014. The Court has established deadlines for post-trial closing and reply briefs, but has not yet scheduled a date for oral argument following the February 10, 2015 deadline for submission of reply briefs.

On April 23, 2012, Cal Am filed an application with the CPUC for approval of the Monterey Peninsula Water Supply Project (the "Water Supply Project"). The Water Supply Project involves construction of a desalination plant and related facilities, all to be owned by Cal Am. In addition, the Water Supply Project may encompass Cal Am's purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project (the "GWR Project"), a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District ("MPWMD"). The Water Supply Project also would involve aquifer storage and recovery through an already established aquifer storage and recovery program between Cal Am and the MPWMD.

On July 31, 2013, Cal Am entered into a settlement agreement with 15 other parties that have intervened in the CPUC proceedings with respect to the Water Supply Project, including several Monterey County government entities, the Office of Ratepayer Advocates of the CPUC and several interest groups (the "WSP Settlement"). Under the settlement agreement, the parties have agreed on several matters relating to the Water Supply Project. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to Cal Am, and, if the GWR Project supplies water to Cal Am, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water. This settlement agreement is subject to the approval of the CPUC and will not take effect unless the CPUC determines that it is reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed Water Supply Project, which currently is expected to be issued in the first quarter of 2016.

A preliminary step to building the desalination plant is the test slant well project, involving the construction and operation of a test slant well, as well as monitoring well clusters and other related infrastructure, to confirm the suitability of the property on which permanent intake wells will be located to draw water from under Monterey Bay. As proposed by Cal Am, the site of the test slant well is on a property owned by one or more affiliates of Cemex, Inc. (collectively, "Cemex"), and in the WSP Settlement, the parties agreed that the preferred location to build a test slant well project is the Cemex property. Cal Am and Cemex have entered into an agreement under which Cal Am acquired a temporary investigative easement to construct and operate the test slant well together with monitoring wells and other related infrastructure on Cemex property and a four year option to purchase a permanent easement that will enable Cal Am's access to and operation of slant wells and related pipelines and utilities for the Water Supply Project on portions of the Cemex property to be determined if and when the final configuration of new water supply wells are approved by the California Coastal Commission (“Coastal Commission”).

On November 12, 2014, the Coastal Commission approved the coastal development permit for the test slant well on the Cemex property. In addition, the Coastal Commission approved a second coastal development permit, enabling Cal Am to construct the portion of the test slant well that will be under state lands (beneath the ocean floor), provided that Cal Am acquires a lease from the California State Lands Commission (the “State Lands Commission”), which owns the state lands. The State Lands Commission executed the required lease on January 22, 2015, and the Coastal Commission issued the second coastal development permit on January 28, 2015.

On December 11, 2014, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in the Monterey County Superior Court against the Coastal Commission and Cal Am. With the consent of all parties involved, the matter was transferred to the San Jose County Superior Court. MCWD seeks, among other things, a peremptory writ of mandate commanding the Coastal Commission to vacate its decision to approve the coastal development permit relating to the Cemex property, and a permanent injunction restraining Cal Am and the Coastal Commission from taking any action to implement the test slant well project, pending full compliance with the California Environmental Quality Act (“CEQA”) and the California Coastal Act (the “Coastal Act”).

On December 23, 2014, Ag Land Trust, an agricultural land conservancy, filed its First Amended Petition for Writ of Mandamus with the San Jose County Superior Court against the Coastal Commission and Cal Am (the "Ag Land Trust Petition"). The Ag Land Trust Petition seeks writs of mandate ordering the Coastal Commission to set aside its approval of the test slant well project and follow California regulations and statutes in complying with CEQA and the Coastal Act, and enjoining Cal Am from engaging in any activity pursuant to the test slant well project until the project and the Coastal Commission comply with California regulations and statutes.

On January 15, 2015, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in the Santa Cruz County against the California State Lands Commission and Cal Am (the "January 2015 Petition"). The January 2015 Petition seeks injunctive relief restraining the State Lands Commission and Cal Am from taking any action to further implement the test slant well project pending full compliance with CEQA and other applicable laws; a peremptory writ of mandate commanding the State Lands Commission to vacate and set aside the decision to approve the lease allowing Cal Am to construct and operate a test slant well and associated monitoring wells on sovereign lands; and a peremptory writ of mandate directing the State Lands Commission and Cal Am to comply with the requirements of CEQA and other applicable laws.

The Coastal Commission and the State Lands Commission have not yet responded to the action or actions in which they respectively are a respondent. Cal Am has not yet responded to the actions, although it intends to contest these actions vigorously.

In addition to the foregoing matters, Cal Am’s ability to move forward on the Water Supply Project is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the settlement agreements relating to the Water Supply Project. In addition, there have been delays in the initial timetable for preparation of the environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. As a result, Cal Am estimates that the earliest date by which the Water Supply Project could be completed is early 2019. We cannot assure that Cal Am’s application for the Water Supply Project will be approved or that the Water Supply Project will be completed on a timely basis, if ever.

Because the projected completion date of the Water Supply Project is beyond the December 31, 2016 deadline for Cal Am to terminate unpermitted diversions from the Carmel River, Cal Am has commenced discussions with the Water Resources Control Board to extend the December 2016 deadline. While Cal Am believes the discussions have been constructive, we cannot assure that the deadline will be extended.

West Virginia Elk River Freedom Industries’ Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company (“WVAWC”) treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection (“DEP”), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a “Do Not Use” order for all of its approximately 93,000 customer accounts in parts of nine West Virginia counties served by the Charleston treatment plant. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention ("CDC") and EPA indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals were at non-detectable levels remained in place. In addition, based on saved samples taken on or before January 18, 2014, PPH/DiPPH was no longer detected in the water supply as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM were below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC continued to work with laboratories to test down to below 2 ppb of MCHM and announced on March 3, 2014, that it had cleared the system to below this level.

To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone and Putnam counties. Fifty-two of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. ("AWWSC," and together with WVAWC and the Company, the "American Water Defendants") were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases back to the state courts and have been consolidated for the sole purpose of resolving venue issues. Four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated complaint for those cases was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with Crude MCHM and provided by WVAWC in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The consolidated complaint names several individuals and corporate entities as defendants, including the American Water Defendants. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety or alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease. The American Water Defendants have each filed an answer to the consolidated complaint. The Company individually, and AWWSC and WVAWC together, filed motions to dismiss the consolidated complaint. Briefing on these motions was completed on January 28, 2015.

Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney's Office for the Southern District of West Virginia, the West Virginia Attorney General, and the Public Service Commission of West Virginia (the "PSC"). As a result of the U.S. Attorney's Office investigation, on December 17, 2014, four former Freedom Industries officers (three of whom also were former owners of Freedom Industries), were indicted for, among other things, negligent discharge of a pollutant in violation of the federal Clean Water Act. These executives are also facing additional federal charges resulting from a 13-count superseding indictment issued by a grand jury on January 21, 2015. In addition, information charges were filed against Freedom Industries for, among other things, negligent discharge of a pollutant in violation of the Clean Water Act, and against the former plant manager of Freedom Industries' Elk River facility and one of the individuals responsible for environmental compliance at Freedom Industries for violating the Clean Water Act.

On May 21, 2014, the PSC issued an Order initiating a General Investigation into certain matters relating to WVAWC's response to the Freedom industries spill. Three parties have intervened in the proceeding, including the Consumer Advocate Division of the PSC and two attorney-sponsored groups, including one sponsored by some of the plaintiffs' counsel involved in the civil litigation described above. WVAWC has filed testimony regarding its response to the spill and is subject to discovery from PSC staff and the intervenors as part of the General Investigation. Several disputes have arisen between the WVAWC and the intervenors regarding, among other things, the scope of the discovery and the maintenance of confidentiality with regard to certain WVAWC emergency planning documents. In addition, the intervenors and PSC staff filed expert testimony in support of their assertions that WVAWC did not act reasonably with respect to the Freedom Industries spill, and WVAWC has asserted that some of the testimony is outside the scope of the PSC proceeding. The PSC has deferred setting a revised procedural schedule and has not set a final hearing date on the matter.

The Company, WVAWC and the other Company-affiliated entities named in any of the lawsuits believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliated entities intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company’s financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company’s business, financial condition, results of operations, and cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since April 23, 2008, our common stock has traded on the NYSE under the symbol “AWK.” As of February 19, 2015, there were 179,787,780 shares of common stock outstanding and approximately 2,150 record holders of common stock. Holders of the Company's common stock are entitled to receive dividends when they are declared by the Board of Directors. When dividends on common stock are declared, they are usually paid in March, June, September and December. Future dividends are not guaranteed by the Company and will be dependent on future earnings, financial requirements, contractual provisions of debt agreements and other relevant factors.

The following table sets forth the per-share range of the high and low closing sales prices of our common stock as reported on the NYSE and the cash dividends paid and declared per share for the years ended December 31, 2014 and 2013.

	2014					2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter*	Second Quarter	Third Quarter	Fourth Quarter	Year
Dividends paid per common share	$ 0.28	$ 0.31	$ 0.31	$ 0.31	$ 1.21	$ 0.00	$ 0.28	$ 0.28	$ 0.28	$ 0.84
Dividend declared per common share	$ 0.00	$ 0.31	$ 0.62	$ 0.31	$ 1.24	$ 0.00	$ 0.28	$ 0.56	$ 0.28	$ 1.12
Price range of common stock										
—High	$ 45.56	$ 49.45	$ 50.61	$ 55.86	$ 55.86	$ 41.44	$ 42.74	$ 43.50	$ 43.49	$ 43.50
—Low	$ 41.16	$ 45.16	$ 46.41	$ 47.92	$ 41.16	$ 37.33	$ 39.40	$ 39.90	$ 39.13	$ 37.33

*The dividend that would have normally been paid in the first quarter of 2013 was paid on December 28, 2012 to allow shareholders to take advantage of the existing 2012 tax rates.

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. The program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution.

For information on securities authorized for issuance under our equity compensation see “Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Statement of operations data: (1)					
Operating revenues	$ 3,011,328	$ 2,878,936	$ 2,853,926	$ 2,641,592	$ 2,535,131
Operating income	$ 1,002,576	$ 948,316	$ 924,104	$ 801,639	$ 728,951
Income from continuing operations	$ 429,841	$ 370,844	$ 373,602	$ 303,472	$ 255,451
Income from continuing operations per basic common share	$ 2.40	$ 2.08	$ 2.12	$ 1.73	$ 1.46
Income from continuing operations per diluted common share	$ 2.39	$ 2.07	$ 2.10	$ 1.72	$ 1.46

	As of December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Balance sheet data:					
Cash and cash equivalents	$ 23,080	$ 26,964	$ 24,433	$ 14,207	$ 13,112
Utility plant and property, net of depreciation	$ 12,899,704	$ 12,244,359	$ 11,584,944	$ 10,872,042	$ 10,241,342
Total assets	$ 16,130,956	$ 15,088,142	$ 14,718,976	$ 14,776,391	$ 14,086,246
Short-term and long-term debt	$ 5,942,186	$ 5,855,712	$ 5,574,763	$ 5,882,956	$ 5,658,473
Redeemable preferred stock	$ 17,151	$ 18,827	$ 20,511	$ 22,036	$ 22,794
Total debt and redeemable preferred stock	$ 5,959,336	$ 5,874,539	$ 5,595,274	$ 5,904,992	$ 5,681,267
Common stockholders' equity	$ 4,915,591	$ 4,727,804	$ 4,443,268	$ 4,235,837	$ 4,127,725
Preferred stock without mandatory redemption requirements	$ —	$ —	$ 1,720	$ 4,547	$ 4,547
Total stockholders' equity	$ 4,915,591	$ 4,727,804	$ 4,444,988	$ 4,240,384	$ 4,132,272

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Other data:					
Cash flows provided by (used in):					
Operating activities	$ 1,097,287	896,162	$ 955,598	$ 808,357	$ 774,933
Investing activities (2)	$ (1,013,989)	(1,053,294)	$ (382,356)	$ (912,397)	$ (746,743)
Financing activities (2)	$ (87,182)	159,663	$ (563,016)	$ 105,135	$ (37,334)
Construction expenditures, included in investing activities	$ (956,119)	(980,252)	$ (928,574)	$ (924,858)	$ (765,636)
Dividends paid per common share (3)	$ 1.21	$ 0.84	$ 1.21	$ 0.90	$ 0.86
Dividends declared per common share (4)	$ 1.24	$ 1.12	$ 0.98	$ 1.13	$ 0.86

(1) This information has been restated to reflect the impact of discontinued operations, as applicable. See Note 3 of the Consolidated Financial Statements for additional details on our discontinued operations.

(2) The amount for the year ended December 31, 2012 includes net proceeds from the sale of our Arizona, New Mexico and Ohio subsidiaries of approximately $561 million, with the majority of it used to pay down short-term debt. For further information, see “Item 7—Management Discussion and Analysis—Consolidated Results of Operations.”

(3) 2012 includes one additional dividend payment of $0.25 per common share paid on December 28, 2012 to shareholders of record as of December 20, 2012 to allow them to take advantage of the existing 2012 tax rates.

(4) Included in 2011 was a change in the timing of dividend declarations. As a result, five dividend declarations were made during 2011.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the financial statements and the notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are based on management’s current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-K should be read as applying to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under “Risk Factors” and elsewhere in this Form 10-K. You should read “Risk Factors” and “Forward-Looking Statements.”

Executive Overview

General

American Water Works Company, Inc. (herein referred to as “American Water” or the “Company”) is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenues and population served. Our approximately 6,400 employees provide drinking water, wastewater and other water related services to an estimated 15 million people in 47 states and in one Canadian province. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses provide services in 16 states and serve approximately 3.2 million customers based on the number of active service connections to our water and wastewater networks. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment.

In 2014, we continued the execution of our strategic goals. Our commitment to growth through investment in our regulated infrastructure and expansion of our regulated customer base and our Market-Based Operations, combined with operational excellence led to continued improvement in regulated operating efficiency, improved performance of our Market-Based Operations, and enabled us to provide increased value to our customers and investors. During the year, we focused on growth, addressed regulatory lag, made more efficient use of capital and improved our regulated operation and maintenance ("O&M") efficiency ratio.

2014 Financial Results

For the year ended December 31, 2014, we continued to increase net income, while making significant capital investment in our infrastructure and implementing operational efficiency improvements to keep customer rates affordable. Highlights of our 2014 operating results compared to 2013 and 2012 include:

	2014	**2013**	**2012**
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Income (loss) from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Diluted earnings per share	$ 2.35	$ 2.06	$ 2.01

Continuing Operations

Income from continuing operations included 4 cents per diluted share of costs resulting from the Freedom Industries chemical spill in West Virginia in 2014 and included 14 cents per diluted share in 2013 related to a tender offer. Earnings from continuing operations, adjusted for these two items, increased 10%, or 22 cents per share, mainly due to favorable operating results from our Regulated Businesses segment due to higher revenues and lower operating expenses, partially offset by higher depreciation expenses. Also contributing to the overall increase in income from continuing operations was lower interest expense in 2014 compared to the same period in 2013.

Discontinued operations

In the fourth quarter of 2014, we sold our Terratec line of business, which was part of our Market-Based Operations segment. The loss from discontinued operations, net of tax reflected in the 2014 financial results includes the loss on the sale, an income tax valuation allowance and the 2014 operating results of the entity prior to the sale.

Also, as part of our portfolio optimization initiative, the sales of our regulated subsidiaries in Arizona, New Mexico and Ohio were completed during 2012. Discontinued operations include the gain/loss on sale, as well as the operating results of these subsidiaries.

See "Consolidated Results of Operations and Variances" and "Segment Results" below for further detailed discussion of the consolidated results of operations, as well as our business segments. All financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") reflects continuing operations, unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

Making Efficient Use of Capital

We invested approximately $1 billion and $950 million in Company-funded capital improvements in 2014 and 2013, respectively. These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth and ensure system reliability, security and quality of service. The need for continuous investment presents a challenge as we work to balance investment needs with customer affordability. In addition, the potential for regulatory lag, or the delay in recovering operating expenses may impact the level of our capital investments.

Expanding Markets and Developing New Offerings

During 2014, our Regulated Businesses completed the purchase of five regulated water systems, five regulated wastewater systems and three regulated water and wastewater systems. These acquisitions added approximately 2,100 water customers and 2,400 wastewater customers to our regulated operations. During 2014, our Military Services Group within our Market-Based Operations segment was awarded two U.S. military contracts. In January 2014, it was awarded a contract for operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. In August 2014, the Military Services Group was awarded a contract for operation and maintenance of the water and wastewater systems at Picatinny Arsenal in New Jersey. During 2014, our Homeowners Services Group ("HOS") began offering its water and sewer line protection programs in eight new states. Additionally, Orlando Utilities Commission ("OUC") awarded HOS a contract to be OUC's exclusive provider of service line protection programs. This contract enables HOS to market its water line, sewer line, in-home plumbing, interior electric, surge, commercial water line and commercial sewer line protection programs to OUC's 234,000 customers. In 2014, HOS also launched its interior electric program and continued to develop new products and services to better meet customer needs.

On November 4, 2014 voters in Haddonfield, New Jersey, Arnold, Missouri and Russiaville, Indiana approved referendums for us to purchase their water and/or wastewater assets. Following regulatory approval and financial close, these three acquisitions will add approximately 19,000 customers to the company’s regulated footprint. Additionally, in February, 2015 our Illinois subsidiary entered into an agreement to purchase the City of Mt. Vernon’s water and wastewater systems, which serves about 6,600 customer connections.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our O&M efficiency ratio during 2014. Our O&M efficiency ratio was 36.7% for the year ended December 31, 2014 compared to 38.5% and 40.7% for the years ended December 31, 2013 and 2012, respectively. The improvement in our 2014 O&M efficiency ratio in 2014 was principally attributable to the increase in our Regulated Businesses’ revenues as well as a decrease in adjusted O&M expenses compared to the same period in 2013.

Our O&M efficiency ratio (a non-GAAP measure) is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also excluded from operating revenues and O&M expenses the impact from weather and the West Virginia Freedom Industries chemical spill. Additionally, from the O&M expenses, we exclude the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other lines in the Statement of Operations.

Management believes that this calculation better reflects the Regulated Businesses segment’s O&M efficiency ratio. We evaluate our operating performance using this measure, as it is the primary measure of the efficiency of our regulated operations. This information is intended to enhance an investor’s overall understanding of our operating performance. O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies’ operating measures or deemed more useful than the GAAP information provided elsewhere in this report. The following table provides a reconciliation between operation and maintenance expense and operating revenues, as determined in accordance with GAAP, and to those amounts utilized in the calculation of our O&M efficiency ratio for the years ended December 31, 2014, 2013 and 2012:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure)

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Total O&M expense	$ 1,349,864	$ 1,289,081	$ 1,329,500
Less:			
O&M expense—Market-Based Operations	289,395	240,610	256,269
O&M expense—Other	(51,038)	(56,973)	(56,755)
Total Regulated O&M expense	1,111,507	1,105,444	1,129,986
Less:			
Regulated purchased water expense	121,301	111,119	110,173
Allocation of internal O&M costs	38,985	34,635	35,067
Impact of West Virginia Freedom Industries chemical spill	10,438	—	—
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)	4,700
Adjusted Regulated O&M expense (a)	$ 942,545	$ 961,377	$ 980,046
Total Operating Revenues	$ 3,011,328	$ 2,878,936	$ 2,853,926
Less:			
Operating revenues—Market-Based Operations	354,679	302,541	307,366
Operating revenues—Other	(17,680)	(17,523)	(17,874)
Total Regulated operating revenues	2,674,329	2,593,918	2,564,434
Less:			
Regulated purchased water expense*	121,301	111,119	110,173
Plus:			
Impact of West Virginia Freedom Industries chemical spill	1,012	—	—
Estimated impact of weather (mid-point of range)	16,785	15,625	(47,400)
Adjusted Regulated operating revenues (b)	$ 2,570,825	$ 2,498,424	$ 2,406,861
Regulated O&M efficiency ratio (a)/(b)	36.7%	38.5%	40.7%

* Note calculation assumes purchased water revenues approximate purchased water expenses.

Addressing Regulatory Lag

In 2014, additional annualized revenues from general rate cases amounting to $43.7 million, including step increases totaling $5.7 million, became effective. Also, in 2014, we were granted $34.6 million in additional annualized revenues, assuming constant sales volume, from infrastructure charges in several of our states.

On November 21, 2014, we reached a stipulation and settlement agreement related to our rate case with the Indiana Office of the Utility Consumers Counselor. This agreement was submitted to the Indiana Utility Regulatory Commission for consideration. On January 28, 2015, the PUC issued their order which provides additional annualized revenues totaling $5.1 million effective as of January 29, 2015.

On February 19, 2014, the Company, the Office of Ratepayer Advocate and other intervenors submitted an amended settlement of $24.0 million that includes a test year 2015 revenue requirement increase of $12.7 million from the July 2013 filing date. The settlement also provides for escalation and attrition adjustments in 2016 and 2017 of $5.0 million and $6.3 million, respectively. The agreement is pending regulatory approval and is subject to change.

On October 29, 2014, our Tennessee subsidiary filed for additional annualized revenues from infrastructure charges in the amount of $2.4 million, as adjusted.

In the fourth quarter of 2014, we filed two general rate cases. On November 14, 2014, our Kentucky subsidiary filed a general wastewater rate case requesting an additional $0.1 million in annualized revenues. On December 19, 2014, our Maryland subsidiary filed a general rate case requesting an additional $0.8 million in annualized revenues.

On January 9, 2015, our New Jersey subsidiary filed a general rate case requesting additional annualized revenues of $66.2 million. Additionally, annualized revenues of $9.4 million and $6.4 million resulting in infrastructure charges in our New Jersey and Illinois subsidiaries, respectively, became effective in 2015.

In total, as of February 20, 2015, we are awaiting final orders in four states requesting additional annualized revenues of approximately $91.1 million, for general rate cases, and the $2.4 million in additional annualized revenues in Tennessee for infrastructure charges.

Other matters

West Virginia Event

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked 4-methylcyclohexane methanol, or MCHM, and PPH/DiPHH, a mix of polyglycol ethers, into the Elk River near the WVAWC treatment plant in Charleston, West Virginia. As a result of this event, income after income taxes for the twelve months ended December 31, 2014 was reduced by $7.0 million or $0.04 per share. See Part I, Item 3, “Legal Proceedings” in this report for information regarding litigation and an investigation by the Public Service Commission of West Virginia relating to the Freedom Industries chemical spill. The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries chemical spill, and the Company, WVAWC and other Company affiliates have valid, meritorious defenses to the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

2015 and Beyond

Our future results are anchored on five central themes with customers at the center of all we do. These five central themes are:

Customers

- Our focus continues to concentrate on our customers by achieving customer satisfaction and service quality targets. In addition, we will continue to balance our infrastructure investment needs with the affordability impact on customer bills.

Safety

- Our focus continues on driving safety in everything that we do. Our safety focus includes safety of employees, customers and the public. We have made safety a core value of our company.

People

- Our focus on employees and our culture is paramount to our success going forward. We intend to focus on ensuring we have strong relationships with our union represented employees, effective training and development and diversity of our workforce.

Growth

- We expect to invest $6 billion over the next five years, with $1.2 billion in 2015, as follows:
  - Capital investment to improve infrastructure in our Regulated Businesses of $5.2 billion, with $1.1 billion expected in 2015.
  - Growth from acquisitions in our Regulated Businesses to expand our water and wastewater customer base of $540 million.
  - Growth in our Market-Based businesses from new core growth, expanded markets and new offerings, and evaluate potential opportunities to assist the shale industry in the delivery of water to support their processes. We have estimated strategic capital of $230 million.

Technology & Operational Efficiency

- Continued commitment to operational efficiency, technology innovation and environmental stewardship. We intend to continue to modernize our infrastructure and focus on operational efficiencies, while bolstering a culture of continuous improvement. We have set a goal to achieve an O&M efficiency ratio equal to or below 34% by 2020. In regards to environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage.

We are committed to operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces value for our shareholders. We are committed to an ongoing strategy that leverages processes and technology innovation to make ourselves more effective and efficient.

Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Operating revenues	$ 3,011,328	$ 2,878,936	$ 2,853,926
Operating expenses			
Operation and maintenance	1,349,864	1,289,081	1,329,500
Depreciation and amortization	424,084	406,717	380,402
General taxes	236,732	234,198	220,758
(Gain) loss on asset dispositions and purchases	(1,928)	624	(838)
Total operating expenses, net	2,008,752	1,930,620	1,929,822
Operating income	1,002,576	948,316	924,104
Other income (expenses)			
Interest, net	(297,818)	(308,164)	(310,794)
Loss on extinguishment of debt	—	(40,583)	—
Allowance for other funds used during construction	9,440	12,639	15,592
Allowance for borrowed funds used during construction	5,838	6,377	7,771
Amortization of debt expense	(7,026)	(6,603)	(5,358)
Other, net	(3,196)	(4,045)	(926)
Total other income (expenses)	(292,762)	(340,379)	(293,715)
Income from continuing operations before income taxes	709,814	607,937	630,389
Provision for income taxes	279,973	237,093	256,787
Income from continuing operations	429,841	370,844	373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	$ 423,108	$ 369,264	$ 358,070
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $(29,487), $46,974 and $(16,894), respectively	$ (46,119)	$ 73,472	$ (26,425)
Pension amortized to periodic benefit cost:			
Prior service cost, net of tax of $106, $111 and $113, respectively	166	174	176
Actuarial (gain) loss, net of tax of $(19), $5,697 and $4,668, respectively	(31)	8,911	7,301
Foreign currency translation adjustment	(458)	(1,001)	434
Unrealized loss on cash flow hedge, net of tax of $(428)	(791)	—	—
Other comprehensive income (loss)	(47,233)	81,556	(18,514)
Comprehensive income	$ 375,875	$ 450,820	$ 339,556
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03
Diluted earnings per share: (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01
Average common shares outstanding during the period			
Basic	178,888	177,814	176,445
Diluted	179,806	179,056	177,671
Dividends declared per common share	$ 1.24	$ 1.12	$ 0.98

(a) Amounts may not sum due to rounding.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues. Consolidated operating revenues for the year ended December 31, 2014 increased $132.4 million, or 4.6%, compared to the same period in 2013. This increase is the result of higher revenues in our Regulated Businesses of $80.4 million, which was mainly attributable to rate increases, incremental revenues from surcharges and balancing accounts and acquisitions partially offset by reduced consumption in 2014. Also contributing to the higher revenue was a $52.1 million increase in our Market-Based Operations segment. The primary drivers were incremental revenue from contract growth in HOS, and for our military contracts, price redeterminations and increased construction project activity with the largest increase due to the Fort Polk wastewater treatment plant project awarded in late 2013. For further information see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2014 increased $60.8 million, or 4.7%, compared to 2013. The increase is primarily due to an increase in our Market-Based Operations segment of $48.8 million principally as a result of incremental costs related to the increased activity under our military contracts, corresponding with the increased revenue. Also, our Regulated Businesses’ costs increased by $6.1 million principally due to increased production costs, uncollectible expense, maintenance expenses and costs associated with the Freedom Industries chemical spill in West Virginia partially offset by lower employee-related costs. For further information see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $17.4 million, or 4.3%, for the year ended December 31, 2014 compared to the same period in the prior year as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that were placed into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $47.6 million, or 14.0%, for the year ended December 31, 2014 compared to the same period in the prior year. This decrease is principally attributable to the recognition of a pre-tax loss on debt extinguishment in 2013 of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. Also contributing to the decrease was a reduction in interest expense resulting from interest savings as a result of our 2014 and 2013 refinancings, offset by a reduction in allowance for funds used during construction (“AFUDC”) which is mainly attributable to our Customer Information and Enterprise Asset Management systems being placed into service in the second and fourths quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $42.9 million, or 18.1%, to $280.0 million for the year ended December 31, 2014. The effective tax rates for the years ended December 31, 2014 and 2013 were 39.4% and 39.0%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As previously noted, the financial results of our Terratec line of business within our Market-Based Operations segment was classified as discontinued operations for all periods presented. The sale of Terratec was completed in the fourth quarter of 2014. The increase in the loss from discontinued operations, net of tax is primarily related to the after-tax loss recorded on the sale of $2.3 million and lower operating results in 2014 compared to 2013.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Consolidated operating revenues for the year ended December 31, 2013 increased $25.0 million, or 0.9%, compared to the same period in 2012. This increase is the result of higher revenues in our Regulated Businesses of $29.5 million, which was mainly attributable to rate increases partially offset by decreased consumption, primarily related to weather. For further information see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2013 decreased $40.4 million, or 3.0%, compared to 2012. This change was mainly attributable to a $24.5 million decrease in our Regulated Businesses’ costs primarily related to a decrease in employee-related costs, primarily pension and group insurance expense as well as lower preventive maintenance expenses. For further information see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $26.3 million, or 6.9%, for the year ended December 31, 2013 compared to the same period in the prior year as a result of additional utility plant placed in service including our business transformation project, which accounted for $10.8 million of the incremental expense in 2013.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts and other miscellaneous items, increased by $13.4 million, or 6.1%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. This increase was principally due to incremental taxes in the first half of 2013 associated with the properties acquired in our New York acquisition in the second quarter of 2012. Also, 2012 property taxes were lower due to the recognition of credit adjustments in Indiana and Missouri which reduced property tax expense in the third quarter of 2012. Lastly, gross receipts taxes were higher in our New Jersey subsidiary by $3.5 million.

Other income (expenses). Other expenses increased $46.7 million, or 15.9%, for the year ended December 31, 2013 compared to the same period in the prior year. This increase is principally attributable to the recognition of a pre-tax loss on debt extinguishment of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. The loss consisted of a repurchase premium of $39.4 million, transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. Also contributing to the increase was a reduction in allowance for funds used during construction (“AFUDC”) of $4.3 million resulting from decreased construction activities, compared to the same period in 2012, including the winding down of our business transformation project.

Provision for income taxes. Our consolidated provision for income taxes decreased $19.7 million, or 7.7%, to $237.1 million for the year ended December 31, 2013. The effective tax rates for the years ended December 31, 2013 and 2012 were 39.0% and 40.7%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries.

Segment Results of Operations

We have two operating segments, which are also our reportable segments: the Regulated Businesses and the Market-Based Operations. These segments are determined based on how we assess performance and allocate resources. We evaluate the performance of our segments and allocated resources based on several factors, with the primary measure being income from continuing operations before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Operating revenues	$ 2,674,329	$ 2,593,918	$ 2,564,434
Operation and maintenance expense	1,111,507	1,105,444	1,129,986
Operating expenses, net	1,725,651	1,700,052	1,685,734
Income from continuing operations before income taxes	707,449	654,834	649,117

Operating Revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is subject to state regulation and our results of operations can be impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate. The table below details additional annualized revenues awarded, including step increases and assuming a constant volume, resulting from rate authorizations granted in 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
		(In millions)	
State			
General Rate Cases:			
Pennsylvania (1)	$ —	$ 26.0	$ —
New Jersey	—	—	30.0
Kentucky (2)	—	6.9	—
Missouri	—	—	24.0
Illinois	—	—	17.9
Indiana	—		1.9
California (3)	1.9	3.5	32.9
West Virginia (4)	—	8.5	—
Virginia(5)	—	—	2.6
Tennessee	—	—	5.2
Iowa(6)	3.8	—	2.8
New York(7)	—	—	5.6
Other	—	0.1	0.2
Total—General Rate Cases	$ 5.7	$ 45.0	$ 123.1

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(1) On December 19, 2013, a rate case settlement was approved with an effective date of January 1, 2014. This rate increase combined, in part, wastewater and water rates.

(2) Final order was received on October 25, 2013. The increase approximated the interim rates, net of the reserve that had been recorded since July 27, 2013.

(3) Second and final step increases from the 2012 rate case became effective on April 1, 2013 and April 1, 2014, respectively.

(4) Final order issued on September 26, 2013 by the West Virginia Public Service Commission. New rates were put into effect October 11, 2013.

(5) The new rates provided additional annualized revenues of $2.3 million in 2012 and $4.3 million in 2011 for jurisdictional customers, and $0.3 million in 2013 and $0.5 million in 2011 for non-jurisdictional customers, which are not subject to commission approval.

(6) Effective date of new rates was April 18, 2014. The increase included approximately $2.7 million of interim rates that were effective May 10, 2013.

(7) Amount includes a $3.0 million increase effective April 1, 2012, with the remainder of $1.4 million and $1.2 million becoming effective April 1, 2013 and April 1, 2014, respectively.

The effective dates for the more significant increases granted in 2012 were January 1, 2012, April 1, 2012, May 1, 2012 and October 1, 2012 for our California, Missouri, New Jersey, and Illinois subsidiaries, respectively.

As previously noted, an increasing number of states are permitting rates to be adjusted outside of a general rate case for certain costs, such as mechanisms that permit a return on capital investments to replace aging infrastructure. The following table details additional annualized revenues authorized through infrastructure surcharge mechanisms which were granted in 2014, 2013 and 2012. As these surcharges are typically rolled into the new base rates and therefore are reset to zero when new base rates are effective, certain of these charges may also be reflected in the total general rate case amounts awarded in the table above if the order date was following the infrastructure surcharge filing date:

	Years Ended December 31,		
	2014	2013	2012
		(In millions)	
*Infrastructure C*harges:			
Pennsylvania (1)	$ —	$ 19.8	$ 10.5
New Jersey (2)	17.5	4.0	—
Missouri (3)	12.7	7.9	4.2
Indiana (4)	—	3.9	3.7
Illinois (5)	2.1	0.5	—
New York (6)	1.8	—	—
Other	0.5	—	—
Total—Infrastructure Charges	$ 34.6	$ 36.1	$ 18.4

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(1) Quarterly filings made with PUC. $6.7 million, $3.7 million, $2.9 million and $6.5 million effective October 1, 2013, July 1, 2013, April 1, 2013 and January 1, 2013, respectively. No infrastructure charges in 2014 as a result of general rate case effective January 1, 2014 utilized forecasted test year and therefore qualifying infrastructure improvements already reflected in rates.

(2) Semi-annual filings made with the PUC. $7.4 million, $10.1 million and $4.0 million effective July 1, 2014, January 1, 2014 and July 1, 2013, respectively.

(3) For 2014, $9.0 million and $3.7 million effective December 31, 2014 and May 30, 2014, respectively. For 2013, $5.4 million effective June 21, 2013 and $2.5 million effective December 14, 2013.

(4) Effective December 18, 2013.

(5) $2.1 million effective January 1, 2014 and $0.5 million effective October 1, 2013.

(6) $0.9 million effective January 1, 2014, $0.7 million effective March 3, 2014 and $0.2 million effective April 1, 2014.

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues increased by $80.4 million, or 3.1%, for the year ended December 31, 2014 compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $80.0 million attributable to rate increases, including infrastructure mechanisms, obtained through rate authorizations for a number of our operating companies. Additionally, revenues increased by $10.9 million due to an increase in surcharges and balancing accounts and by approximately $12.6 million attributable to acquisitions. The most significant contributor to the increase in revenues from acquisitions was Dale Service Corporation (“Dale”), which was acquired by our Virginia Subsidiary in the fourth quarter of 2013. Partially offsetting these increases was a decrease in revenues of approximately $27.0 million as a result of lower demand.

The following table sets forth the amounts and percentages of Regulated Businesses’ revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,515,049	$1,465,174	$ 49,875	3.4%	176,975	180,976	(4,001)	(2.2%)
Commercial	550,124	520,875	29,249	5.6%	81,564	80,392	1,172	1.5%
Industrial	131,834	118,939	12,895	10.8%	39,833	37,107	2,726	7.3%
Public and other	333,048	312,369	20,679	6.6%	52,710	51,009	1,701	3.3%
Other water revenues	26,377	17,546	8,831	50.3%	—	—	—	—
Billed water services	2,556,432	2,434,903	121,529	5.0%	351,082	349,484	1,598	0.5%
Unbilled water services	(25,419)	30,142	(55,561)	(184.3%)				
Total water revenues	2,531,013	2,465,045	65,968	2.7%				
Wastewater revenues	93,067	82,831	10,236	12.4%				
Other revenues	50,250	46,043	4,207	9.1%				
	$2,674,330	$2,593,919	$ 80,411	3.1%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2014 totaled $2,531.0 million, a $66.0 million increase, or 2.7%, over the same period of 2013. As described above, the increases are primarily due to rate increases, infrastructure surcharges, amortization of balancing accounts and recent acquisitions. Also, it should be noted that the mix between billed revenues and unbilled revenues has changed. This is principally the result of the implementation of our Customer Information System (“CIS”) as part of Phase II of our business transformation project. At December 31, 2013, unbilled revenues were significantly higher than historical levels due to billing delays in certain accounts. During the first quarter of 2014, we addressed a majority of these delayed billings. Therefore, as a result, the unbilled water revenues decreased by $55.6 million with corresponding increases in billed revenues.

Wastewater services—Our subsidiaries provide wastewater services in 11 states. Revenues from these services increased $10.2 million, or 12.4%, compared to the year ended December 31, 2013. The increase was primarily attributable to incremental revenues resulting from acquisitions, most notably the Dale acquisition in the fourth quarter of 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $4.2 million, or 9.1%, compared to the year ended December 31, 2013. The increase in revenues for the year ended December 31, 2014, as compared to the same period in the prior year, was mainly due to $2.4 million in insurance proceeds for business interruption as a result of Hurricane Sandy in addition to an increase in late payment fees.

Operation and maintenance expense. Operation and maintenance expense increased $6.1 million, or 0.5%, for the year ended December 31, 2014, compared to the year ended December 31, 2013. Operation and maintenance expense for 2014 and 2013, by major expense category, was as follows:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 289,168	$ 271,181	$ 17,987	6.6%
Employee-related costs	429,878	455,690	(25,812)	(5.7%)
Operating supplies and services	216,154	215,702	452	0.2%
Maintenance materials and supplies	68,027	65,853	2,174	3.3%
Customer billing and accounting	61,459	52,625	8,834	16.8%
Other	46,821	44,393	2,428	5.5%
Total	$ 1,111,507	$ 1,105,444	$ 6,063	0.5%

Production costs including fuel and power, purchased water, chemicals and waste disposal costs increased by $18.0 million, or 6.6%, for 2014 compared to 2013. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$ 121,301	$ 111,119	$ 10,182	9.2%
Fuel and power	92,011	86,337	5,674	6.6%
Chemicals	45,930	47,901	(1,971)	(4.1%)
Waste disposal	29,926	25,824	4,102	15.9%
Total	$ 289,168	$ 271,181	$ 17,987	6.6%

Overall production costs increased for the year ended December 31, 2014 compared to the prior year as a result of increases in purchased water, fuel and power costs and waste disposal. Partially offsetting these increases was a decrease in chemicals due to a $1.8 million reversal of chemical expense resulting from a favorable litigation settlement. The purchased water increases principally reflect increased prices in our California subsidiary and, to a lesser extent, price increases in our Illinois subsidiary. Fuel and power costs increased due to higher supplier prices in several of our operating facilities as well as incremental costs as a result of the Dale acquisition in the fourth quarter of 2013. The increase in waste disposal costs was principally due to an increase in the amount allowed by a cost recovery mechanism in one of our operating companies and the Dale acquisition. Also contributing to the increase was incremental costs associated with the Freedom Industries chemical spill in West Virginia.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $25.8 million, or 5.7%, for 2014 compared to 2013. These employee-related costs represented 38.7% and 41.2% of operation and maintenance expense for 2014 and 2013, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$ 328,329	$ 323,022	$ 5,307	1.6%
Pensions	26,805	48,374	(21,569)	(44.6%)
Group insurance	55,196	65,872	(10,676)	(16.2%)
Other benefits	19,548	18,422	1,126	6.1%
Total	$ 429,878	$ 455,690	$ (25,812)	(5.7%)

The overall decrease in employee-related costs for the year ended December 31, 2014, compared to 2013, was primarily due to a reduction in pension costs and postretirement benefit costs (which is included in group insurance expenses). These decreases are principally due to the change in assumptions used for the discount rate, which in turn resulted in decreased contributions. The decrease in contributions occurred at those regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Partially offsetting these decreases was an increase in salaries and wages expense as a result of annual wage increases and increased overtime expense attributable to an increased number of main breaks as a result of the harsh winter weather conditions and increases in severance expense as a result of the restructuring of certain functions, offset by a reduction in incentive compensation due to a lower than expected payout for the 2013 incentive period as well as higher capitalization rates as a result of increased capital projects.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs remained relatively unchanged with an increase of $0.5 million, or 0.2%, for the year ended December 31, 2014 compared to the same period in 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 88,466	$ 93,744	$ (5,278)	(5.6%)
Office supplies and services	45,224	45,272	(48)	(0.1%)
Transportation	19,749	20,620	(871)	(4.2%)
Rents	15,339	15,830	(491)	(3.1%)
Other	47,376	40,236	7,140	17.7%
Total	$ 216,154	$ 215,702	$ 452	0.2%

The increase in other operating supplies and services was primarily offset by a decrease in contracted services. Other operating supplies and services increased as a result of a $2.2 million increase in customer education and communication in California related to community relations and Measure “0” and an $0.8 million increase in conservation expense as well as the inclusion in 2013 of $1.6 million of insurance proceeds for the recovery of expenses related to Hurricanes Irene and Sandy and an increase in legal expenses. The decrease in contracted services is primarily the result of the completion of our business transformation project, consisting of the roll-out of our Enterprise Asset Management system and CIS, which required the use of additional contracted services in 2013. These decreases were partially offset by increases resulting from the Freedom Industries chemical spill in West Virginia.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, increased $2.2 million, or 3.3%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance materials and supplies	$ 68,027	$ 65,853	$ 2,174	3.3%

The increase for the year ended December 31, 2014, compared to the same period in 2013, is primarily due to increases in paving, backfilling and other repair costs, most of which are from the higher than normal main breaks in the first quarter of 2014 due to the abnormally harsh winter weather conditions experienced throughout our operating areas.

Customer billing and accounting expenses increased by $8.8 million, or 16.8%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$ 35,027	$ 26,443	$ 8,584	32.5%
Postage	13,793	12,757	1,036	8.1%
Other	12,639	13,425	(786)	(5.9%)
Total	$ 61,459	$ 52,625	$ 8,834	16.8%

The increase for 2014 is primarily due to incremental uncollectible expense associated with an increase in customer accounts receivable attributable to the overall aging of receivables as well as rate increases. We believe the change in our aging of receivables in 2014 is the result of temporary changes we made in our collection process in connection with the implementation of our new CIS in 2013, including Phase II which occurred in the fourth quarter of 2013.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. These costs increased by $2.4 million, or 5.5%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$ 41,067	$ 35,406	$ 5,661	16.0%
Regulatory expenses	5,754	8,987	(3,233)	(36.0%)
Total	$ 46,821	$ 44,393	$ 2,428	5.5%

The increase for the year ended December 31, 2014, compared to the year ended December 31, 2013, is primarily due to an increase in our expected premiums, principally due to incremental claims associated with the Freedom Industries chemical spill in West Virginia, net of favorable forecasted experience for existing claims. These premiums are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature. The increase in insurance costs is partially offset by lower regulatory expenses in one of our operating subsidiaries compared to the same period in the prior year.

Operating expenses. The increase in operating expenses for the year ended December 31, 2014 is principally due to the higher operation and maintenance expenses explained above and higher depreciation and amortization expense of $18.2 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including CIS and our Enterprise Asset Management system.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues increased by $29.5 million, or 1.1%, for the year ended December 31, 2013 compared to the same period in 2012. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $72.4 million. Additionally revenues increased by $16.4 million due to increased surcharge and amortization of balancing accounts. Lastly, revenues were higher by $9.9 million as a result of acquisitions, with the most significant being the result of our New York acquisition in the second quarter of 2012 (additional four months of revenue in 2013 compared to 2012) and the acquisition of Dale by our Virginia subsidiary in the fourth quarter of 2013. These increases were partially offset by decreased revenues of approximately $64.5 million as a result of lower demand, principally driven by the hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler and wetter weather conditions in 2013.

The following table sets forth the amounts and percentages of Regulated Businesses’ revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,465,174	$1,465,803	$ (629)	(0.0%)	180,976	188,927	(7,951)	(4.2%)
Commercial	520,875	518,253	2,622	0.5%	80,392	84,226	(3,834)	(4.6%)
Industrial	118,939	121,902	(2,963)	(2.4%)	37,107	39,429	(2,322)	(5.9%)
Public and other	312,369	321,593	(9,224)	(2.9%)	51,009	54,202	(3,193)	(5.9%)
Other water revenues	17,546	16,992	554	3.3%	—	—	—	—
Billed water services	2,434,903	2,444,543	(9,640)	(0.4%)	349,484	366,784	(17,300)	(4.7%)
Unbilled water services	30,142	4,484	25,658	572.2%				
Total water revenues	2,465,045	2,449,027	16,018	0.7%				
Wastewater revenues	82,831	78,168	4,663	6.0%				
Other revenues	46,043	42,547	3,496	8.2%				
	$2,593,919	$2,569,742	$ 24,177	0.9%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2013 totaled $2,465.0 million, a $21.3 million increase, or 0.9%, over the same period of 2012. However, the mix between billed revenues/billed volumes to unbilled revenues/unbilled volumes changed significantly principally as a result of our CIS implementation. Unbilled revenue increased $25.7 million compared to the same period in the prior year mainly as a result of delayed invoicing to customers. With the implementation, we made a decision to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As such bills that exceed certain tolerance levels are being held until verification can be performed. As such, the timing of issuance of bills has caused a decrease in billed volumes in 2013 when compared to 2012, with a corresponding increase in unbilled usage. For our residential and commercial customers, we believe that the majority of the decline in billed volumes was attributable to the weather abnormalities between 2012 and 2013 as well as the implementation of our new CIS system by our regulated subsidiaries. For the remaining customer classes, we believe the decline in billed volumes was mainly due to the delay in invoicing the customer as a result of our CIS implementation.

Wastewater services—Our subsidiaries provide wastewater services in ten states. Revenues from these services increased by $4.7 million, or 6.0%, to $82.8 million for the year ended December 31, 2013, from the same period of 2012. The increase was primarily attributable to rate increases in our Pennsylvania subsidiary as well as the Dale acquisition in November, 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $3.5 million, or 8.2%, compared to the year ended December 31, 2012. The increase in revenues for the year ended December 31, 2013, as compared to the same period in the prior year, was mainly due to the additional surcharge revenues offset by decreases in revenues related to billings for others, reconnection and late fees.

Operation and maintenance. Operation and maintenance expense decreased $24.5 million, or 2.2%, for the year ended December 31, 2013, compared to the year ended December 31, 2012. Operation and maintenance expense for 2013 and 2012, by major expense category, was as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 271,181	$ 274,775	$ (3,594)	(1.3%)
Employee-related costs	455,690	472,075	(16,385)	(3.5%)
Operating supplies and services	215,702	210,947	4,755	2.3%
Maintenance materials and supplies	65,853	81,062	(15,209)	(18.8%)
Customer billing and accounting	52,625	49,257	3,368	6.8%
Other	44,393	41,870	2,523	6.0%
Total	$ 1,105,444	$ 1,129,986	$ (24,542)	(2.2%)

Production costs including fuel and power, purchased water, chemicals and waste disposal costs decreased by $3.6 million, or 1.3%, for 2013 compared to 2012. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$ 111,119	$ 110,173	$ 946	0.9%
Fuel and power	86,337	89,282	(2,945)	(3.3%)
Chemicals	47,901	49,334	(1,433)	(2.9%)
Waste disposal	25,824	25,986	(162)	(0.6%)
Total	$ 271,181	$ 274,775	$ (3,594)	(1.3%)

Overall, production costs decreased for the year ended December 31, 2013 compared to the prior year as a result of reductions in chemical and fuel and power costs resulting from decreased usage mainly attributable to lower consumption in most of our states.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $16.4 million, or 3.5%, for 2013 compared to 2012. These employee-related costs represented 41.2% and 41.8% of operation and maintenance expense for 2013 and 2012, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$ 323,022	$ 326,370	$ (3,348)	(1.0%)
Pensions	48,374	56,299	(7,925)	(14.1%)
Group insurance	65,872	71,103	(5,231)	(7.4%)
Other benefits	18,422	18,303	119	0.7%
Total	$ 455,690	$ 472,075	$ (16,385)	(3.5%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was mainly the result of lower employee incentive and stock compensation expense of approximately $5.9 million in addition to higher capitalization rates, due to increased capital investment, and a reduction in headcount partially offset by increased overtime and annual wage increases. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. The reduction in group insurance expense is mainly attributable to higher capitalization rates and reduced headcount.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $4.8 million, or 2.3%, for the year ended December 31, 2013 compared to the same period in 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 93,744	$ 87,675	$ 6,069	6.9%
Office supplies and services	45,272	49,354	(4,082)	(8.3%)
Transportation	20,620	22,917	(2,297)	(10.0%)
Rents	15,830	16,943	(1,113)	(6.6%)
Other	40,236	34,058	6,178	18.1%
Total	$ 215,702	$ 210,947	$ 4,755	2.3%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. These increases were mainly due to incremental costs attributable to the continued maturity of our Enterprise Resource Planning system in conjunction with the implementation of Phase I and Phase II of our business transformation project. Additionally, contracted services increased due to the use of contractors for other specific projects. Other increases in the other operating supplies and services costs are related to a $1.3 million increase in condemnation costs and a $1.2 million increase in conservation expense as well as the inclusion in 2012 of a $1.0 million reduction in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy and a $2.1 million credit adjustment resulting from the finalization of rate decisions in California and are offset by $1.6 million of insurance proceeds related to recovery of expenses related to Hurricanes Irene and Sandy received in 2013. The decrease in office supplies and services is due to cost containment efforts primarily related to employee travel. Transportation costs decreased due to the reduction of leased vehicles.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, decreased $15.2 million, or 18.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance materials and supplies	$ 65,853	$ 81,062	$ (15,209)	(18.8%)

The decrease of $15.2 million in 2013 is mainly attributable to 2012 including increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $3.4 million, or 6.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$ 26,443	$ 22,541	$ 3,902	17.3%
Postage	12,757	12,694	63	0.5%
Other	13,425	14,022	(597)	(4.3%)
Total	$ 52,625	$ 49,257	$ 3,368	6.8%

The increase in the uncollectible accounts expense was primarily due to an increase in our Regulated Businesses' customer accounts receivable attributable to rate increases and an increase in the overall aging of receivables due to our CIS implementation.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $2.5 million, or 6.0%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$ 35,406	$ 31,883	$ 3,523	11.0%
Regulatory expenses	8,987	9,987	(1,000)	(10.0%)
Total	$ 44,393	$ 41,870	$ 2,523	6.0%

Insurance costs in 2013 were higher, compared to 2012, primarily due to higher casualty insurance costs as a result of historical claims experience and retroactive adjustments.

Operating expenses. The increase in operating expenses for the year ended December 31, 2013 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $26.3 million and higher general tax expense of $12.4 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including $10.8 million of incremental expense resulting from the assets placed in service for our business transformation project. The increase in general tax expense is primarily due to higher property taxes in our New York subsidiary due to a full year of expense in 2013 on properties acquired in the second quarter of 2012 of $5.2 million, the inclusion of property tax adjustments that reduced expense for our Indiana and Missouri subsidiaries by $4.0 million in 2012, and higher 2013 gross receipts taxes in our New Jersey subsidiary of $3.5 million.

Market-Based Operations Segment

The following table provides certain financial information for our Market-Based Operations segment for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Operating revenues	$ 354,679	$ 302,541	$ 307,366
Operation and maintenance expense	289,395	240,610	256,268
Operating expenses, net	299,549	252,302	266,005
Income from continuing operations before income taxes	57,539	53,104	44,948

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues. The increase in revenues for the year ended December 31, 2014, compared to the same period in 2013, is primarily attributable to incremental Military Service Group revenues of $39.4 million mainly from an increase in construction project activities for our military contracts and an increase in our Homeowners Services Group ("HOS") revenues of approximately $16.2

million principally the result of contract growth, mainly though our New York City contracts, as well as expansion into other geographic areas and price increases for certain existing customers. Partially offsetting these increases was a reduction of our Contract Operations Group (ConOp) revenues attributable to the termination of certain municipal and industrial operations and maintenance contracts. Additionally, included in the 2013 Military Service Group revenues was $5.4 million in retroactive price redeterminations for several of our military contracts.

Operation and Maintenance. Operation and maintenance expense increased $48.8 million, or 20.3%, for the year ended December 31, 2014, compared to the year ended December 31, 2013.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 34,691	$ 36,753	$ (2,062)	(5.6%)
Employee-related costs	62,201	60,392	1,809	3.0%
Operating supplies and services	138,531	97,887	40,644	41.5%
Maintenance materials and supplies	47,324	41,107	6,217	15.1%
Other	6,648	4,471	2,177	48.7%
Total	$ 289,395	$ 240,610	$ 48,785	20.3%

As noted in the table above, the primary factor contributing to the overall increase was an increase in operating supplies and services. This increase is mainly attributable to the increase in construction project activities under our military contracts and corresponds with the incremental revenues. Another factor contributing to this increase was the inclusion in 2013 of the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Maintenance materials and supplies increased primarily due to higher HOS repair costs, which is attributable to the increase in the number of contracts.

Operating expense. The increase in operating expenses for the year ended December 31, 2014 is primarily driven by the increase in operation and maintenance expense explained above.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Revenues decreased $4.8 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to lower revenues of $14.4 million resulting from the termination of certain municipal and industrial operations and maintenance contracts, most of which occurred in 2012. Additionally, revenues from construction project activities associated with military construction contracts decreased $8.4 million, due to lower levels of work as compared to the prior year. These decreases were offset by a net increase of $4.0 million from price redeterminations for several of our military contracts as well as an increase of $16.6 million in our HOS revenues associated with contract growth, most notably in New York City.

Operation and maintenance. Operation and maintenance expense decreased $15.7 million, or 6.1%, for the year ended December 31, 2013, compared to the year ended December 31, 2012.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 36,753	$ 42,153	$ (5,400)	(12.8%)
Employee-related costs	60,392	64,711	(4,319)	(6.7%)
Operating supplies and services	97,887	105,082	(7,195)	(6.8%)
Maintenance materials and supplies	41,107	36,135	4,972	13.8%
Other	4,471	8,188	(3,717)	(45.4%)
Total	$ 240,610	$ 256,269	$ (15,659)	(6.1%)

As noted in the table above, decreases in operating supplies and services, production costs and employee-related costs were partially offset by an increase in maintenance materials and supplies. The decrease in production costs and employee-related costs is mostly due to the termination of certain municipal and industrial operations and maintenance contracts. The decrease in operating supplies and services is attributable to the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Additionally, 2013 was impacted by decreased construction project activity for our military contracts and is partially offset by increased HOS contracted services expense as well as higher printing and postage costs associated with expanding into new markets, including New York City. The increase in maintenance materials and supplies is primarily due to higher HOS repair costs, which is attributable to new contracts, an increase in the number of claims, as well as the average cost per claim and is partially offset by the terminated municipal and industrial operations and maintenance contracts. The decrease in the other category is mainly due to decreases in uncollectible accounts expense of $3.5 million, which is due to 2012 including incremental amounts related to terminated contracts in addition to improved collection experience in 2013 for certain other municipal and industrial operations and maintenance contracts.

Operating expense. The decrease in operating expenses for the year ended December 31, 2013 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Liquidity and Capital Resources

We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures. Our business is very capital intensive and requires significant capital resources. A majority of these capital resources are provided by internally generated cash flows from operations. When necessary, we obtain additional funds from external sources in the debt and equity capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general, as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to an unsecured revolving credit facility with aggregate bank commitments of $1.25 billion. We rely on this revolving credit facility and the capital markets to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. Disruptions in the credit markets may discourage lenders from extending the terms of such commitments or agreeing to new commitments. Market disruptions may also limit our ability to issue debt and equity securities in the capital markets. See “—Credit Facility and Short-Term Debt.” In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. AWCC had no outstanding borrowings and $38.0 million of outstanding letters of credit under its credit facility as of December 31, 2014. As of December 31, 2014, AWCC had $1.25 billion available under the credit facility that we could use to fulfill our short-term liquidity needs, to issue letters of credit and support our $450.0 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

In addition, our regulated operating companies receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from the rate base. Generally, we depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use our capital resources, including cash, to (i) fund operating and capital requirements, including construction expenditures, (ii) pay off maturing debt, (iii) pay dividends, (iv) fund pension and postretirement welfare obligations and (v) invest in new and existing ventures. We spend a significant amount of cash on construction projects that we expect to have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. See “Business—Regulation—Economic Regulation.” We expect to fund future maturities of long-term debt through a combination of external debt and to the extent available cash flows from operations. Since we continue to make investments equal to or greater than our cash flows from operating activities, we have no plans to reduce debt significantly.

We believe that our ability to access the capital markets, our revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term requirements. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and to the extent necessary, our revolving credit facility. We believe we have sufficient liquidity and ability to manage our expenditures should there be a disruption of the capital and credit markets.

In addition, the Company can delay major capital investments or other funding requirements or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by, among other things, economic utility regulation; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; weather and seasonality; and overall economic conditions.

Cash flows from operating activities have been a reliable, steady source of funding, sufficient to meet operating requirements, make our dividend payments and fund a portion of our capital expenditure requirements. We will seek access to debt and equity capital markets to meet the balance of our capital expenditure requirements as needed. There can be no assurance that we will be able to access such markets successfully on favorable terms or at all. Operating cash flows can be negatively affected by changes in our rate regulated environments or changes in our customers' economic outlook and ability to pay for service in a timely manner. We can provide no assurance that our customers' historical payment pattern will continue in the future.

The following table provides a summary of the major items affecting our cash flows from operating activities for the periods indicated:

	Years Ended December 31,		
	2014	**2013**	**2012**
		(In thousands)	
Net income	$ 423,108	$ 369,264	$ 358,070
Add (subtract):			
Non-cash activities (1)	722,871	761,772	688,126
Changes in working capital (2)	3,503	(137,374)	38,812
Pension and postretirement healthcare contributions	(52,195)	(97,500)	(129,410)
Net cash flows provided by operations	$ 1,097,287	$ 896,162	$ 955,598

(1) Includes depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenues, taxes receivable (including income taxes), other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address the timing issue through the aforementioned liquidity funding mechanisms.

The increase in cash flows from operations for the year ended December 31, 2014 compared to the same period in 2013 is principally due to the improvement in the cash collections of our Regulated Businesses' accounts receivable, some of which were unbilled at December 31, 2013. Cash collections in 2013 for our Regulated Businesses' accounts receivable were slower than historical payment patterns, mainly due to the implementation of our CIS system in May 2013. We believe the slowdown in collections is the result of the system implementation and therefore is temporary in nature. We implemented the CIS system in our remaining Regulated Businesses in October 2013 and we have experienced a similar slowdown in cash collections for these operating companies in 2014.

The decrease in cash flows from operations for the year ended December 31, 2013 compared to the same period in 2012 is principally due to changes in working capital, which is related to the aforementioned delays in billing and slower collections in our accounts receivable in our Regulated Businesses and the change in payables in 2013, as we were delayed in 2012 in executing payables at normal volumes due to the implementation of Phase I of our business transformation project. Partially offsetting these working capital decreases was a reduction in the pension and postretirement healthcare contributions in 2013.

The Company expects to make pension and postretirement benefit contributions to the plan trusts of $54.5 million in 2015, of which $6.1 million was already made in 2015. In addition, we estimate that contributions will amount to $55.6 million in 2016, $52.7 million in 2017, $56.7 million in 2018 and $66.3 million in 2019. Actual amounts contributed could change materially from these estimates as a result of changes in assumptions and actual investment returns.

Cash Flows from Investing Activities

Cash flows used in investing activities were as follows for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net capital expenditures	$ (956,119)	$ (980,252)	$ (928,574)
Proceeds from sale of assets and securities	13,841	918	561,739
Acquisitions	(8,935)	(23,658)	(44,560)
Other investing activities, net (1)	(62,776)	(50,302)	29,039
Net cash flows used in investing activities	$ (1,013,989)	$ (1,053,294)	$ (382,356)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash flows used in investing activities increased in 2014 compared to 2013 primarily due to an increase in our capital expenditures for the year ended December 31, 2014 principally as a result of incremental spending associated with the replacement of our transmission and distribution infrastructure.

Our infrastructure investment plan consists of both infrastructure renewal programs, where we replace infrastructure as needed, and major capital investment projects, where we construct new water and wastewater treatment and delivery facilities to meet new customer growth and water quality regulations. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

While capital expenditures were $956.1 million, total capital investment amounted to $1.0 billion. The following table provides a summary of our historical capital expenditures related to upgrading our infrastructure and systems:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Transmission and distribution	$ 462,706	$ 435,449	$ 343,640
Treatment and pumping	96,535	89,278	138,072
Services, meter and fire hydrants	170,470	178,412	171,855
General structures and equipment	142,193	131,446	104,854
Business transformation project	8,379	59,746	107,049
Sources of supply	30,916	50,013	44,602
Wastewater	44,920	35,908	18,502
Total capital expenditures	$ 956,119	$ 980,252	$ 928,574

Capital expenditures for the year ended December 31, 2014, decreased by $24.1 million or 2.5% compared to 2013, principally due to the completion of Phase I and Phase II of our business transformation project.

Capital expenditures for the year ended December 31, 2013, increased by $51.7 million or 5.6% compared to 2012, principally due to our continued replacement of transmission and distribution infrastructure, rehabilitation to storage facilities and dam rehabilitation and increased expenditures related to information systems, and vehicles. Partially offsetting this increase was reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects in 2012 as well as a reduction in our business transformation expenses also due to completion of Phase I of the project in 2012 and the implementation of a portion of Phase II in May 2013.

One avenue to seek growth is through tuck-ins, by helping commissions with troubled water systems as well as other acquisitions that are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions are funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

The following provides a summary of the acquisitions and dispositions affecting our cash flows from investing activities in the years indicated:

2014:

We paid approximately $8.9 million for 13 water and wastewater systems.

We received approximately $1.9 million for the sale of assets and securities.

2013:

We paid approximately $23.7 million for ten water and five wastewater system. These acquisitions added approximately 30,000 customers to our existing regulated footprint. The largest of these acquisitions was the acquisition of the stock of a wastewater system in Virginia with approximately 20,000 customers in November 2013 for a purchase price of $5.1 million (net of cash acquired of $6.9 million) plus assumed liabilities.

We received approximately $0.9 million for the sale of assets and securities.

2012:

We paid approximately $44.6 million for numerous regulated water and wastewater systems in New York, Pennsylvania, Indiana, Missouri and West Virginia, with the largest associated with the acquisition of seven regulated water systems in New York in May 2012 for a purchase price of $36.7 million plus assumed liabilities.

We received approximately $561.7 million from the sale of our assets and securities, including $458.9 million associated with the sale of our Arizona, New Mexico and Ohio regulated subsidiaries.

As previously noted, in 2015, we estimate that our total capital plan is $1.2 billion with approximately $1.1 billion allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth, and $0.1 billion for acquisitions and strategic investment purposes. For years in the foreseeable future beyond 2015, we estimate such investment will be between $1.1 and $1.2 billion per year.

We intend to invest capital prudently to provide essential services to our regulated customer base, while working with regulators in the various states in which we operate to have the opportunity to earn an appropriate rate of return on our investment and a return of our investment.

Our investing activities could require considerable capital resources which we have generated through operations and attained through financing activities. We can provide no assurances that these resources will be sufficient to meet our expected investment needs and may be required to delay or reevaluate our investment plans.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be funded with customer advances and contributions for construction (net of refunds). This amounted to $26.3 million, $19.3 million and $31.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. As previously noted AWCC is a wholly-owned finance subsidiary of the Company. Based on the needs of our regulated subsidiaries and the Company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the Company. The regulated subsidiaries and the Company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the Company’s borrowings are not a source of capital for the regulated subsidiaries, the Company is not able to recover the interest charges on the Company’s debt through regulated water and wastewater rates. As of December 31, 2014, AWCC has made long-term fixed rate loans and commercial paper loans to our Regulated Businesses amounting to $3.0 billion and $319.2 million, respectively. Additionally, as of December 31, 2014, AWCC has made long-term fixed rate loans and commercial paper loans to the Company totaling $979.9 million and $130.8 million to the Company, respectively.

On May 4, 2012, we and AWCC filed a universal shelf registration statement that enabled us to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, all subject to market demand and ratings status. During 2014, 2013 and 2012, $500 million, $400 million and $300 million, respectively, of debt securities were issued pursuant to this registration statement.

The following long-term debt was issued in 2014:

Company	Type	Rate	Maturity	Amount
AWCC (1)	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$ 500,000
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$ 510,474

(1) On August 14, 2014, AWCC closed on senior fixed rate notes. Proceeds from this issuance were used to refinance commercial paper borrowings and to finance redemptions of long-term debt.

(2) Proceeds from the above issuance were received in 2014 and have been utilized to fund certain specific projects. $10.0 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

In addition to the above issuances, we also assumed $1.7 million of debt as a result of acquisitions in 2014.

The following long-term debt was retired through optional redemption or payment at maturity during 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2018-2032	$ 101,085
AWCC	Senior notes—fixed rate	6.00%	2039	59,561
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	78,718
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other subsidiaries	Capital lease payments			28
Total retirements and redemptions				$ 241,042

(1) Includes $1.0 million of non-cash redemptions resulting from the use of restricted funds.

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC (1)	Senior notes—fixed rate	3.85%	2024	$ 400,000
AWCC (2)	Private activity bonds and government funded debt—fixed rate	2.30%-2.90%	2021-2030	8,122
Other subsidiaries (3)	Private activity bonds and government funded debt—fixed rate	1.59%-2.41%	2031-2033	2,737
Total issuances				$ 410,859

(1) On November 20, 2013, AWCC closed on 3.85% senior fixed rate notes offering. Proceeds from the offering were used to refinance commercial paper borrowings.

(2) Proceeds from the above issuance were received in the fourth quarter of 2013 and have been utilized to fund certain specific projects. $6.7 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

(3) Proceeds from the above issuances were received from Pennsylvania Infrastructure Investment Authority (“PennVest”) and have been used to fund certain projects.

In addition to the above issuances, we also assumed $12.7 million of debt as a result of acquisitions in 2013, of which $12.5 million is the result of our Dale Service Corporation stock acquisition in the fourth 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 (In thousands)
AWCC (1)	Senior notes—fixed rate	5.39%-10.00%	2013-2017	$ 476,638
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00% -5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds—fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatory redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Capital leases & other			359
Total retirements & redemptions				$ 498,310

(1) On October 8, 2013, we announced the purchase and retirement through a tender offer of $225.8 million in aggregate outstanding principal amount of our 6.08% Senior Notes due 2017. On October 8, 2013, we paid $271.8 million to effect the tender, which, in addition to the principal, included a repurchase premium of $39.4 million and accrued interest of $6.6 million. Also, in October 2013 and related to the tender, we recorded transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. The redemption was originally financed through commercial paper borrowing.

(2) Includes a $3.6 million of non-cash redemptions resulting from the use of restricted funds.

On November 1, 2013, we issued notices of redemption for $74.8 million and $75.0 million of outstanding Senior Notes with an original maturity date of 2038 and interest rates of 8.25% and 10.0%, respectively. These notes were retired on December 1, 2013.

Also on December 21, 2013, an additional $101.0 million with an interest rate of 5.39% in Senior Notes matured.

The following long-term debt was issued in 2012:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC (1)	Senior notes—fixed rate	4.30%	2042	$ 300,000
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2025-2041	68,746
Other subsidiaries (3)	Private activity bonds and government funded debt—fixed rate	1.00%-2.76%	2025-2041	14,730
Other subsidiaries	Mortgage bonds—fixed rate	4.29%	2022	700
Total issuances				$ 384,176

(1) The net proceeds from this issuance were used to finance certain redemptions of long-term debt and to fund the repayment of short-term debt.

(2) Proceeds from these issuances were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the Trust are reflected as the release of restricted funds and are included in investing activities in the Consolidated Statements of Cash Flows.

(3) Proceeds from these issuances were received from the Pennsylvania Infrastructure Investment Authority and have been used to fund specified projects.

Also, in the second quarter of 2012, and in connection with the acquisition of our additional subsidiaries in New York, we assumed debt of $25.2 million with coupon rates of 5.00% to 6.00% and maturity dates ranging from 2015 to 2035. In September 2012, we redeemed $10.9 million of these outstanding bonds with original maturity dates of 2031 to 2035 and interest rates ranging from 5.00% to 6.00%.

The following long-term debt was retired through optional redemption or payment at maturity during 2012:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC	Senior notes—fixed rate	8.25%	2038	$ 10
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-9.60%	2012-2041	447,325
Other subsidiaries	Mortgage bonds—fixed rate	6.85%-7.95%	2012	24,200
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2036	1,549
Other	Capital leases & other			419
Total retirements & redemptions				$ 473,503

Included in the long-term debt redemptions/retirements is $4.2 million related to our previously held Ohio subsidiary, which was classified in discontinued operations prior to its divestiture.

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheets.

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. This program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions. The program will be conducted in accordance with Rule 10b-18 of the Exchange Act, as amended, and to facilitate the purchases, the Company has also entered into with a broker a Rule 10b5-1 share repurchase plan. By having the Program administered through a Rule 10b5-1 plan, the Company will be able to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the Program or the Rule 10b5-1 parameters at its discretion.

Credit Facility and Short-Term Debt

The short-term debt balance, consisting of commercial paper, net of discount, amounted to $450.0 million and $630.3 million at December 31, 2014 and 2013, respectively.

AWCC has entered into an unsecured revolving credit facility with $1.25 billion in aggregate total commitments from a diversified group of 14 banks with $70.0 million maturing on October 2017 and the remainder, $1.18 billion, maturing on October 2018. Interest rates on advances under the facility are based on a credit spread to the Eurodollar rate or base rate with the credit spread of 1.00% through June 2012 and then based on the higher of AWCC's Moody's Investors Service, which we refer to as Moody's, or Standard & Poor's Ratings Services ratings, which we refer to as S&P, credit rating. At current ratings that spread would be 1.00%. The facility will be principally used to support AWCC's commercial paper program and to provide up to $150.0 million in letters of credit.

We closely monitor events in the financial markets and the financial institutions associated with this credit facility. In accordance with the credit agreement, no financial institution can have more than $250.0 million of the aggregate commitment through the facility expiration date. If any lender defaults in its obligation to fund advances, the Company may request the other lenders to assume the defaulting lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment. However, the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will be able to replace a defaulting lender.

The following table provides information as of December 31, 2014 and 2013, regarding the respective credit facility in effect at the time, letters of credit sub-limits and available funds under those revolving credit facilities, as well as outstanding amounts of commercial paper and outstanding borrowings under the respective facilities:

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sublimit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
			(In thousands)			
December 31, 2014	$ 1,250,000	$ 1,212,104	$ 150,000	$ 112,104	$ 449,959	$ —
December 31, 2013	$ 1,250,000	$ 1,208,215	$ 150,000	$ 108,215	$ 630,307	$ —

AWCC had no outstanding borrowings under the credit facility and $36.5 million of outstanding letters of credit under this credit facility as of February 19, 2015. Also, as of February 19, 2015, AWCC had $502.9 million of commercial paper outstanding.

The weighted-average interest rate on short-term borrowings for the years ended December 31, 2014 and 2013 was approximately 0.31% and 0.43%, respectively.

Capital Structure

The following table indicates the percentage of our capitalization represented by the components of our capital structure as of December 31, 2014, 2013 and 2012:

	At December 31, 2014	At December 31, 2013	At December 31, 2012
Total common stockholders' equity	45%	45%	44%
Long-term debt and redeemable preferred stock at redemption value	50%	49%	52%
Short-term debt and current portion of long-term debt	5%	6%	4%
	100%	100%	100%

The changes in the capital structure between periods were mainly attributable to changes in outstanding commercial paper balances.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements. We do not believe this change will materially impact us. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company’s assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On December 31, 2014, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we also issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

On June 2, 2014, Standard & Poor’s Rating Service revised its rating outlook to positive from stable and affirmed its corporate credit rating of A- on AWCC and American Water and of A2 on AWCC’s short term rating. On May 29, 2013, Moody’s upgraded its rating outlook for both American Water and AWCC from Baa2 to Baa1 and revised its rating outlook to stable.

The following table shows the Company's securities ratings as of December 31, 2014:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Dividends

Our Board of Directors has adopted a dividend practice to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. We expect that dividends will be paid quarterly to holders of record approximately 15 days prior to the distribution date. Since the dividends on our common stock will not be cumulative, only declared dividends will be paid.

During 2014, 2013 and 2012, we paid $216.4 million, $149.5 million and $213.5 million in dividends, respectively. For 2014, we paid a dividend of $0.28 per share on March 3 and $0.31 per share on June 2, September 2 and December 1. In 2013, we paid a dividend of $0.28 per share on December 2, September 3 and June 3.

For 2012, we paid a dividend of $0.25 per share on December 28, December 3 and September 3 and $0.23 per share on June 1 and March 1. The December 28, 2012 cash dividend payment of $0.25 per share would have historically been paid in March 2013, however, the Board approved accelerating the payment date to 2012 to take advantage of the existing 2012 tax rates.

On December 12, 2014, our Board of Directors declared a quarterly cash dividend payment of $0.31 per share payable on March 2, 2015 to shareholders of record as of February 9, 2015.

Regulatory Restrictions

The issuance by the Company or AWCC of long-term debt or equity securities does not require authorization of any state PUC if no guarantee or pledge of the regulated subsidiaries is utilized. However, state PUC authorization is required to issue long-term debt or equity securities at most of our regulated subsidiaries. Our regulated subsidiaries normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under applicable law, our subsidiaries can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the dividends that the subsidiary can distribute to us.

Insurance Coverage

We carry various property, casualty and financial insurance policies with limits, deductibles and exclusions that we believe are consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. Additionally, annual policy renewals can be impacted by claims experience which in turn can impact coverage terms and conditions on a going forward basis. We are self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our short-term and long-term financial condition and our results of operations and cash flows.

Contractual Obligations and Commitments

We enter into obligations with third parties in the ordinary course of business. These financial obligations, as of December 31, 2014, are set forth in the table below:

Contractual obligation	Total	Less Than 1 year	1-3 Years	3-5 years	More Than 5 years
			(In thousands)		
Long-term debt obligations (a)	$ 5,456,502	$ 59,446	$ 622,736	$ 617,175	$ 4,157,145
Interest on long-term debt (b)	4,261,744	303,956	597,636	492,976	2,867,176
Capital lease obligations (c)	885	36	92	115	642
Interest on capital lease obligations (d)	832	116	201	182	333
Operating lease obligations (e)	136,712	14,007	22,868	18,220	81,617
Purchase water obligations (f)	677,590	55,141	95,111	86,132	441,206
Other purchase obligations (g)	126,037	126,037	-	-	-
Postretirement benefit plans' obligations (h)	109,800	26,500	45,700	37,600	-
Pension plan obligations (h)	234,200	28,000	62,600	85,400	58,200
Preferred stocks with mandatory redemption requirements	17,252	1,650	3,300	3,478	8,824
Interest on preferred stock with mandatory redemption requirements	12,606	1,407	2,386	1,802	7,011
Other obligations (i)	814,020	184,032	144,963	61,651	423,374
Total	$ 11,848,180	$ 800,328	$ 1,597,593	$ 1,404,731	$ 8,045,528

Note: The above table reflects only financial obligations and commitments. Therefore, performance obligations associated with our Market-Based Operations are not included in the above amounts.

(a) Represents sinking fund obligations and debt maturities.

(b) Represents expected interest payments on outstanding long-term debt. Amounts reported may differ from actual due to future financing of debt.

(c) Represents future minimum payments under noncancelable capital leases.

(d) Represents expected interest payments on noncancelable capital leases.

(e) Represents future minimum payments under noncancelable operating leases, primarily for the lease of motor vehicles, buildings, land and other equipment including water facilities and systems constructed by partners under the Public-Private Partnerships described below.

(f) Represents future payments under water purchase agreements for minimum quantities of water.

(g) Represents the open purchase orders as of December 31, 2014, for goods and services purchased in the ordinary course of business.

(h) Represents contributions expected to be made to pension and postretirement benefit plans for the years 2015 through 2020.

(i) Includes an estimate of advances for construction to be refunded, capital expenditures estimated to be required under legal and binding contractual obligations, contracts entered into for energy purchases, a liability associated with a conservation agreement and service agreements.

Public-Private Partnerships

West Virginia-American Water Company, which we refer to as WVAWC, has entered into a series of agreements with various public entities, which we refer to as the Partners, to establish certain joint ventures, commonly referred to as “public-private partnerships.” Under the public-private partnerships, WVAWC constructed utility plant, financed by WVAWC, and the Partners constructed utility plant (connected to WVAWC’s property), financed by the Partners. WVAWC agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds, commonly referred to as IDBs, issued by the Partners under a state Industrial Development Bond and Commercial Development Act. WVAWC leased back the total facilities, including portions funded by both WVAWC and the Partners, under leases for a period of 40 years.

WVAWC leased back the transferred facilities under capital leases for a period of 40 years. The leases have payments that approximate the payments required by the terms of the IDBs. We have presented the transaction on a net basis in the consolidated financial statements. The carrying value of the transferred facilities, which is presented within utility plant, was approximately $156.8 million at December 31, 2014.

Performance Obligations

We have entered into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. These military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenues of $2.5 billion at December 31, 2014. The Operations and Maintenance agreements with municipalities and other customers expire between 2015 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $865.8 million at December 31, 2014. Some of the Company’s long-term contracts to operate and maintain a municipality’s, federal government’s or other party’s water or wastewater treatment and delivery facilities include responsibility for certain major maintenance for some of the facilities, in exchange for an annual fee.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Although our management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on our financial condition and results of operations as reflected in our consolidated financial statements.

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions in matters that are inherently uncertain and that may change in subsequent periods. Our management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with our audit committee. In addition, our management has also reviewed the following disclosures regarding the application of these critical accounting policies with the audit committee.

Regulatory Accounting

Our regulated utility subsidiaries are subject to regulation by state PUCs and the local governments of the states in which they operate. As such, we account for these regulated operations in accordance with authoritative guidance that requires us to reflect the effects of rate regulation in our financial statements. Use of the authoritative guidance is applicable to utility operations that meet the following criteria (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. As of December 31, 2014, we concluded that the operations of our regulated subsidiaries meet the criteria. If it is concluded in a future period that a separable portion of the business no longer meets the criteria, we are required to eliminate the financial statement effects of regulation for that part of the business, which would include the elimination of any or all regulatory assets and liabilities that had been recorded in the consolidated financial statements. Failure to meet the criteria of the authoritative guidance could materially impact our consolidated financial statements.

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. As of December 31, 2014, we have recorded $1.2 billion of net regulatory assets and $391.8 million of regulatory liabilities within our consolidated financial statements. See Note 6 of the Notes to Consolidated Financial Statements for further information regarding the significant regulatory assets and liabilities.

For each regulatory jurisdiction where we conduct business, we continually assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates. If subsequent events indicate that the regulatory assets or liabilities no longer meet the criteria for probable future recovery or settlement, our statement of operations and financial position could be materially affected.

Goodwill

The Company has recorded $1.2 billion of goodwill at December 31, 2014 and 2013. The Company’s annual impairment test is performed as of November 30 of each year, in conjunction with the timing of the completion of the Company’s annual strategic business plan. The Company also undertakes interim reviews 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 performs a two-step impairment test to evaluate the carrying value of goodwill for each reporting unit if qualitative factors indicate that it is more likely than not that the reporting units’ fair values are less than their carrying values. The step one calculation used to identify potential impairment compares the estimated fair value for each of the Company's reporting units to their respective net carrying values, including goodwill, on the measurement date. If the estimated fair value of any reporting unit is less than such reporting unit's carrying value, then step two is performed to measure the amount of the impairment loss (if any) for such reporting unit.

The step two calculation of the impairment test compares, by reporting unit, the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of each reporting unit above the fair value of such reporting unit's identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill for any reporting unit, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill) for that reporting unit.

The determination of the fair value of each reporting unit and the fair value of each reporting unit's assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

After assessing various events and circumstances in 2014, 2013 and 2012, the Company determined that no qualitative factors were present that would indicate the estimated fair values of its reporting units were less than the respective carrying values. As such, the Company determined that the two-step goodwill impairment test was not necessary at November 30, 2014, 2013 and 2012.

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

No impairment charge was recorded for the years ended December 31, 2014, 2013 and 2012.

Impairment of Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, we estimate the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on the consolidated financial statements.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which we invest, as well as volatility inherent in the external markets. In assessing potential impairment for these investments, we consider these factors. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Revenue Recognition

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are delivered to customers and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period. Unbilled utility revenues as of December 31, 2014 and 2013 were $220.5 million and $215.7 million, respectively. Increases in volumes delivered to the utilities' customers and rate mix due to changes in usage patterns in customer classes in the period could be significant to the calculation of unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue; however, since the majority of our customers are generally billed on a monthly basis, total operating revenues would remain materially unchanged.

Revenue from Market-Based Operations is recognized as services are rendered. Revenues from certain construction projects are recognized over the contract term based on the costs incurred to date during the period compared to the total estimated costs over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities on the balance sheet until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Accounting for Income Taxes

Significant management judgment is required in determining the provision for income taxes, primarily due to the uncertainty related to tax positions taken, as well as deferred tax assets and liabilities, valuation allowances and the utilization of NOL carryforwards.

In accordance with applicable authoritative guidance, we account for uncertain income tax positions using a benefit recognition model with a two-step approach, including a more-likely-than-not recognition threshold and a measurement approach based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. If it is not more-likely-than-not that the benefit of the tax position will be sustained on its technical merits, no benefit is recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant judgment is required to determine whether the recognition threshold has been met and, if so, the appropriate amount of unrecognized tax benefit to be recorded in the consolidated financial statements.

We evaluate the probability of realizing deferred tax assets quarterly by reviewing a forecast of future taxable income and our intent and ability to implement tax planning strategies, if necessary, to realize deferred tax assets. We also assess our ability to utilize tax attributes, including those in the form of carryforwards, for which the benefits have already been reflected in the financial statements. We record valuation allowances for deferred tax assets when we conclude it is more-likely-than-not such benefit will not be realized in future periods.

Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, our forecasted financial condition and results of operations, failure to successfully implement tax planning strategies, as well as results of audits and examinations of filed tax returns by taxing authorities. While we believe the resulting tax balances as of December 31, 2014 and 2013 are appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome of tax matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 12 of the Notes to Consolidated Financial Statements for additional information regarding income taxes.

Accounting for Pension and Postretirement Benefits

We maintain noncontributory defined benefit pension plans covering eligible employees of our regulated utility and shared service operations. Benefits under the plans are based on the employee’s years of service and compensation. The pension plans have been closed for all employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. We also maintain other postretirement benefit plans, which provide varying levels of medical and life insurance for eligible retirees. These retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002. The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees. The Company does not participate in a multiemployer plan. See Note 13 of the Notes to Consolidated Financial Statements for further information regarding the accounting for the defined benefit pension plans and postretirement benefit plans. The Company’s pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to its actuaries, including the discount rate and expected long-term rate of return on plan assets. Material changes in the Company’s pension and postretirement benefit costs may occur in the future due to changes in these assumptions as well as fluctuations in plan assets. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes. The primary assumptions are:

- Discount Rate—The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due;
- Expected Return on Plan Assets ("EROA")—Management projects the future return on plan assets considering prior performance, but primarily based upon the plans' mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs we record currently;
- Rate of Compensation Increase—Management projects employees' pay increases, which are used to project employees' pension benefits at retirement;
- Health Care Cost Trend Rate—Management projects the expected increases in the cost of health care; and
- Mortality—In the determination of year end 2014 projected benefit obligations, Management adopted a new table based on the Society of Actuaries RP 2014 mortality table including a generational BB-2D projection scale. The adoption resulted in a significant increase to pension and other postretirement benefit plans' projected benefit obligations.

The discount rate assumption, which is determined for the pension and postretirement benefit plans independently, is subject to change each year, consistent with changes in applicable high-quality, long-term corporate bond indices. We use an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a portfolio containing the majority of United States-issued AA-graded non-callable (or callable with make-whole provisions) corporate bonds. For each plan, the discount rate was developed as the level equivalent rate that would yield the same present value as using spot rates aligned with the projected benefit payments. The discount rate for determining pension benefit obligations was 4.24%, 5.12% and 4.17% at December 31, 2014, 2013 and 2012, respectively. The discount rate for determining other post-retirement benefit obligations was 4.24%, 5.10% and 4.16% at December 31, 2014, 2013 and 2012, respectively.

In selecting an expected return on plan assets, we considered tax implications, past performance and economic forecasts for the types of investments held by the plans. The long-term EROA assumption used in calculating pension cost was 6.91% for 2014, 7.49% for 2013, and 7.75% for 2012. The weighted average EROA assumption used in calculating other postretirement benefit costs was 5.87% for 2014, 6.99% for 2013 and 7.41% for 2012.

The asset allocations for the Company's U.S. pension plan at December 31, 2014 and 2013, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
Asset category	**2015**	**2014**	**2013**
Equity securities	52%	51%	64%
Fixed income	40%	41%	35%
Real Estate	6%	6%	—
Real estate investment trusts ("REITs")	2%	2%	1
Total	100%	100%	100%

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor's and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company's other postretirement benefit plans are partially funded. The asset allocations for the Company's other postretirement benefit plans at December 31, 2014 and 2013, by asset category, are as follows:

Asset category	Target Allocation 2015	Percentage of Plan Assets at December 31, 2014	2013
Equity securities	30%	30%	48%
Fixed income	70%	70%	52%
REITs	—	—	—%
Total	100%	100%	100%

The Company's investment policy, and related target asset allocation, is evaluated periodically through asset liability studies. The studies consider projected cash flows of maturity liabilities, projected asset class return risk, and correlation and risk tolerance.

The pension and postretirement welfare plan trusts investments include debt and equity securities held either directly or through commingled funds. The trustee for the Company's defined benefit pension and postretirement welfare plans uses independent valuation firms to calculate the fair value of plan assets. Additionally, the Company independently verifies the assets values. Approximately 48.4% of the assets are valued using the quoted market price for the assets in an active market at the measurement date, while 51.6% of the assets are valued using other inputs.

In selecting a rate of compensation increase, we consider past experience in light of movements in inflation rates. Our rate of compensation increase was 3.12% for 2014, 3.15% for 2013 and 3.19% for 2012.

In selecting health care cost trend rates, we consider past performance and forecasts of increases in health care costs. Our health care cost trend rate used to calculate the periodic cost was 7.00% in 2014 gradually declining to 5.00% in 2019 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Change in Actuarial Assumption	Impact on Other Postretirement Benefit Obligation at December 31, 2014	Impact on 2014 Total Service and Interest Cost Components
	(In thousands)	
Increase assumed health care cost trend by 1%	$ 105,967	$ 5,943
Decrease assumed health care cost trend by 1%	$ (86,179)	$ (4,887)

We will use a discount rate and EROA of 4.24% and 6.91%, respectively, for estimating our 2015 pension costs. Additionally, we will use a discount rate and EROA of 4.24% and 5.87%, respectively, for estimating our 2015 other postretirement benefit costs. A decrease in the discount rate or the EROA would increase our pension expense. Our 2014 and 2013 pension and postretirement costs, including such expenses charged to our discontinued operations, were $24.1 million and $78.1 million, respectively. The Company expects to make pension and postretirement benefit contributions to the plan trusts of $54.5 million, $55.6 million, $52.7 million, $56.7 million and $66.3 million in 2015, 2016, 2017, 2018 and 2019, respectively. Actual amounts contributed could change significantly from these estimates. The assumptions are reviewed annually and at any interim re-measurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension and postretirement benefit amounts as they occur, or over a period of time if allowed under applicable accounting standards. As these assumptions change from period to period, recorded pension and postretirement benefit amounts and funding requirements could also change.

New Accounting Standards

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 was effective on a retrospective basis for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated 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 was effective prospectively for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated guidance did not have an impact on the Company's results of operations, financial position or cash flows.

The following recently issued 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 after December 15, 2014, which for the Company is January 1, 2015. The adoption of this updated guidance resulted in a decrease to nonutility property and opening retained earnings of approximately $12 million on January 1, 2015.

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 updated guidance is effective on a prospective basis for interim and annual periods on or after December 15, 2014, which for the Company is January 1, 2015. In general, this guidance is likely to result in fewer disposals of assets qualifying as discontinued operations, but will ultimately be based on the Company's future disposal activity.

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning December 15, 2016, which for the Company is January 1, 2017. Early adoption is not permitted. The new guidance allows for either full retrospective adoption, meaning the guidance is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The 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 updated guidance may be applied either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

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

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

Hybrid Financial Instruments Issued in the Form of a Share

In November 2014, the FASB updated the derivatives and hedging guidance requiring issuers of, or investors in, hybrid financial instruments to determine whether the nature of the host contract is more akin to a debt instrument or an equity instrument by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This update should be applied on a modified retrospective basis to hybrid financial instruments issued in the form of a share that exist at the beginning of an entity's fiscal year of adoption. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Extraordinary and Unusual Items

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We are exposed to risks from changes in interest rates as a result of our issuance of variable and fixed rate debt and commercial paper. We manage our interest rate exposure by limiting our variable rate exposure and by monitoring the effects of market changes in interest rates. We also have the ability to enter into financial derivative instruments, which could include instruments such as, but not limited to, interest rate swaps, forward starting swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. As of December 31, 2014, a hypothetical increase of interest rates by 1% associated with our short-term borrowings would result in a $4.5 million decrease in our pre-tax earnings.

In July 2010, we entered into an interest rate swap agreement with a notional amount of $100.0 million. This agreement effectively converted the interest on $100.0 million of outstanding 6.085% fixed rate debt maturing 2017 to a variable rate of six-month LIBOR plus 3.422%. We entered into this interest rate swap to mitigate interest cost at the parent company relating to debt that was incurred by our prior owners and was not used in any manner to finance the cash needs of our subsidiaries. For the years ended December 31, 2014 and 2013, the interest rate swap reduced interest expense by $2.3 million and $2.0 million, respectively. As the swap interest rates are fixed through April 2015, a hypothetical 1% increase in the interest rates associated with the interest swap agreement would result in a $0.7 million decrease on our pre-tax earnings for the year ended December 31, 2014. This calculation holds all other variables constant and assumes only the discussed changes in interest rates.

Our risks associated with price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

We are exposed to credit risk through our water, wastewater and other water-related activities for both our Regulated Businesses and Market-Based Operations. Our Regulated Businesses serve residential, commercial, industrial and other customers while our Market-Based Operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated Businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

The Company’s retirement trust assets are exposed to the market prices of debt and equity securities. Changes to the retirement trust asset value can impact the Company’s pension and other benefits expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover pension and other benefit costs through rates. In addition, pension and other benefits liabilities decrease as fixed income asset values decrease (fixed income yields rise) since the rate at which we discount pension and other retirement trust asset future obligations is highly correlated to fixed income yields.

We are also exposed to a potential national economic recession or further deterioration in local economic conditions in the markets in which we operate. The credit quality of our customer accounts receivable is dependent on the economy and the ability of our customers to manage through unfavorable economic cycles and other market changes. In addition, as a result of the downturn in the economy and heightened sensitivity of the impact of additional rate increases on certain customers, there can be no assurances that regulators will grant sufficient rate authorizations. Therefore our ability to fully recover operating expense, recover our investment and provide an appropriate return on invested capital made in our Regulated Businesses may be adversely impacted.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows, and of changes in stockholders' equity present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2015

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

(In thousands, except per share data)

	December 31, 2014	December 31, 2013
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $3,991,680 in 2014 and $3,894,326 in 2013	$ 12,899,704	$ 12,244,359
Nonutility property, net of accumulated depreciation of $248,341 in 2014 and $215,083 in 2013	129,592	143,995
Total property, plant and equipment	13,029,296	12,388,354
Current assets		
Cash and cash equivalents	23,080	26,964
Restricted funds	13,859	28,505
Accounts receivable	267,053	241,926
Allowance for uncollectible accounts	(34,941)	(33,823)
Unbilled revenues	220,538	215,725
Income taxes receivable	2,575	5,778
Materials and supplies	37,190	32,973
Deferred income taxes	86,601	17,722
Assets of discontinued operations	—	7,761
Other	45,414	28,276
Total current assets	661,369	571,807
Regulatory and other long-term assets		
Regulatory assets	1,153,429	858,465
Restricted funds	8,958	754
Goodwill	1,208,043	1,207,764
Other	69,861	60,998
Total regulatory and other long-term assets	2,440,291	2,127,981
TOTAL ASSETS	$ 16,130,956	$ 15,088,142
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 179,462 shares outstanding in 2014 and 178,379 in 2013)	$ 1,795	$ 1,784
Paid-in-capital	6,301,729	6,261,396
Accumulated deficit	(1,295,549)	(1,495,698)
Accumulated other comprehensive loss	(81,868)	(34,635)
Treasury stock	(10,516)	(5,043)
Total common stockholders' equity	4,915,591	4,727,804
Long-term debt		
Long-term debt	5,432,744	5,212,881
Redeemable preferred stock at redemption value	15,501	17,177
Total capitalization	10,363,836	9,957,862
Current liabilities		
Short-term debt	449,959	630,307
Current portion of long-term debt	61,132	14,174
Accounts payable	285,800	264,115
Taxes accrued	24,505	32,166
Interest accrued	56,523	52,087
Liabilities of discontinued operations	—	3,824
Other	363,079	238,860
Total current liabilities	1,240,998	1,235,533
Regulatory and other long-term liabilities		
Advances for construction	367,693	375,729
Deferred income taxes	2,120,739	1,840,697
Deferred investment tax credits	25,014	26,408
Regulatory liabilities	391,782	373,319
Accrued pension	316,368	108,542
Accrued postretirement benefit	192,502	88,419
Other	37,152	38,929
Total regulatory and other long-term liabilities	3,451,250	2,852,043
Contributions in aid of construction	1,074,872	1,042,704
Commitments and contingencies (See Note 14)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 16,130,956	$ 15,088,142

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

(In thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
Operating revenues	$ 3,011,328	$ 2,878,936	$ 2,853,926
Operating expenses			
Operation and maintenance	1,349,864	1,289,081	1,329,500
Depreciation and amortization	424,084	406,717	380,402
General taxes	236,732	234,198	220,758
(Gain) loss on asset dispositions and purchases	(1,928)	624	(838)
Total operating expenses, net	2,008,752	1,930,620	1,929,822
Operating income	1,002,576	948,316	924,104
Other income (expenses)			
Interest, net	(297,818)	(308,164)	(310,794)
Loss on extinguishment of debt	—	(40,583)	—
Allowance for other funds used during construction	9,440	12,639	15,592
Allowance for borrowed funds used during construction	5,838	6,377	7,771
Amortization of debt expense	(7,026)	(6,603)	(5,358)
Other, net	(3,196)	(4,045)	(926)
Total other income (expenses)	(292,762)	(340,379)	(293,715)
Income from continuing operations before income taxes	709,814	607,937	630,389
Provision for income taxes	279,973	237,093	256,787
Income from continuing operations	429,841	370,844	373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	$ 423,108	$ 369,264	$ 358,070
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $(29,487), $46,974 and $(16,894), respectively	$ (46,119)	$ 73,472	$ (26,425)
Pension amortized to periodic benefit cost:			
Prior service cost, net of tax of $106, $111 and $113, respectively	166	174	176
Actuarial (gain) loss, net of tax of $(19), $5,697 and $4,668, respectively	(31)	8,911	7,301
Foreign currency translation adjustment	(458)	(1,001)	434
Unrealized loss on cash flow hedge, net of tax of $(428)	(791)	—	—
Other comprehensive income (loss)	(47,233)	81,556	(18,514)
Comprehensive income	$ 375,875	$ 450,820	$ 339,556
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03
Diluted earnings per share: (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01
Average common shares outstanding during the period			
Basic	178,888	177,814	176,445
Diluted	179,806	179,056	177,671
Dividends declared per common share	$ 1.24	$ 1.12	$ 0.98

(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

(In thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 423,108	$ 369,264	$ 358,070
Adjustments			
Depreciation and amortization	424,084	407,718	381,503
Provision for deferred income taxes	255,573	250,500	200,440
Amortization of deferred investment tax credits	(1,394)	(1,501)	(1,518)
Provision for losses on accounts receivable	36,587	26,953	26,701
Allowance for other funds used during construction	(9,440)	(12,639)	(15,592)
(Gain) loss on asset dispositions and purchases	(1,928)	925	(839)
Pension and non-pension postretirement benefits	24,073	78,069	87,289
Stock-based compensation expense	13,043	12,474	11,470
Other, net	(17,727)	(727)	(1,328)
Changes in assets and liabilities			
Receivables and unbilled revenues	(61,942)	(79,306)	(34,528)
Taxes receivable, including income taxes	3,203	3,816	(1,922)
Other current assets	(1,858)	672	(5,223)
Pension and non-pension postretirement benefit contributions	(52,195)	(97,500)	(129,410)
Accounts payable	(26,137)	16,215	(10,572)
Taxes accrued, including income taxes	(7,895)	(30,182)	48,440
Interest accrued	4,436	(1,723)	(5,647)
Change in book overdraft	31,677	(32,120)	34,172
Other current liabilities	62,019	(14,746)	14,092
Net cash provided by operating activities	1,097,287	896,162	955,598
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(956,119)	(980,252)	(928,574)
Acquisitions	(8,935)	(23,658)	(44,560)
Proceeds from sale of assets and securities	13,841	918	561,739
Removal costs from property, plant and equipment retirements, net	(78,175)	(64,727)	(57,101)
Net funds released	15,399	14,425	86,140
Net cash used in investing activities	(1,013,989)	(1,053,294)	(382,356)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	500,497	404,157	315,430
Repayment of long-term debt	(238,371)	(493,095)	(471,954)
Proceeds from short-term borrowings with maturities greater than three months	35,000	221,000	—
Repayments of short-term borrowings with maturities greater than three months	(256,000)	—	—
Net short-term borrowings (repayments) with maturities less than three months	40,652	139,322	(211,064)
Proceeds from issuances of employee stock plans and DRIP	20,913	26,351	27,860
Advances and contributions for construction, net of refunds of $21,470 in 2014, $23,351 in 2013 and $17,850 in 2012	26,295	19,251	31,909
Change in bank overdraft position	—	—	(34,812)
Debt issuance costs	(4,593)	(4,503)	(7,393)
Redemption of preferred stock	(1,650)	(3,370)	(4,376)
Dividends paid	(216,354)	(149,450)	(213,459)
Other	6,429	—	4,843
Net cash provided by (used in) financing activities	(87,182)	159,663	(563,016)
Net increase (decrease) in cash and cash equivalents	(3,884)	2,531	10,226
Cash and cash equivalents at beginning of period	26,964	24,433	14,207
Cash and cash equivalents at end of period	$ 23,080	$ 26,964	$ 24,433
Cash paid during the year for:			
Interest, net of capitalized amount	$ 301,138	$ 317,826	$ 329,331
Income taxes, net of refunds of $3,668 in 2014, $127 in 2013 and $766 in 2012	$ 15,917	$ 7,788	$ 5,352
Non-cash investing activity:			
Capital expenditures acquired on account but unpaid as of year end	$ 185,641	$ 128,902	$ 159,119
Non-cash financing activity:			
Advances and contributions	$ 16,235	$ 17,590	$ 12,279
Dividends accrued	$ 55,552	$ 49,909	$ —
Long-term debt issued	$ 9,977	$ 6,702	$ 68,746
Long-term debt retired	$ 1,021	$ (3,565)	$ —

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

(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	Total Stockholders' Equity
Balance at December 31, 2011	175,664	$ 1,757	$ 6,180,558	$ (1,848,801)	$ (97,677)	—	$ —	$ 4,547	$ 4,240,384
Net income	—	—	—	358,070	—	—	—	—	358,070
Direct stock reinvestment and purchase plan, net of expense of $14	60	—	2,092	—	—	—	—	—	2,092
Employee stock purchase plan	87	1	3,306	—	—	31	1,046	—	4,353
Stock-based compensation activity	1,177	12	36,688	(1,168)	—	(31)	(1,046)	—	34,486
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(2,827)	(2,827)
Other comprehensive loss, net of tax of $(12,113)	—	—	—	—	(18,514)	—	—	—	(18,514)
Dividends	—	—	—	(173,056)	—	—	—	—	(173,056)
Balance at December 31, 2012	176,988	$ 1,770	$ 6,222,644	$ (1,664,955)	$ (116,191)	—	$ —	$ 1,720	$ 4,444,988
Net income	—	—	—	369,264	—	—	—	—	369,264
Direct stock reinvestment and purchase plan, net of expense of $49	53	1	2,122	—	—	—	—	—	2,123
Employee stock purchase plan	111	1	4,554	—	—	—	—	—	4,555
Stock-based compensation activity	1,227	12	32,076	(648)	—	(132)	(5,043)	—	26,397
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(1,720)	(1,720)
Other comprehensive income, net of tax of $52,782	—	—	—	—	81,556	—	—	—	81,556
Dividends	—	—	—	(199,359)	—	—	—	—	(199,359)
Balance at December 31, 2013	178,379	$ 1,784	$ 6,261,396	$ (1,495,698)	$ (34,635)	(132)	$ (5,043)	$ —	$ 4,727,804
Net income	—	—	—	423,108	—	—	—	—	423,108
Direct stock reinvestment and purchase plan, net of expense of $33	44	1	2,086	—	—	—	—	—	2,087
Employee stock purchase plan	102	1	4,821	—	—	—	—	—	4,822
Stock-based compensation activity	937	9	33,426	(962)	—	(129)	(5,473)	—	27,000
Other comprehensive loss, net of tax of $(29,828)	—	—	—	—	(47,233)	—	—	—	(47,233)
Dividends	—	—	—	(221,997)	—	—	—	—	(221,997)
Balance at December 31, 2014	179,462	$ 1,795	$ 6,301,729	$ (1,295,549)	$ (81,868)	(261)	$ (10,516)	$ —	$ 4,915,591

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

Note 1: Organization and Operation

American Water Works Company, Inc. (“AWW”) and its subsidiaries (collectively referred to herein as the “Company”) is the holding company for regulated and market-based subsidiaries throughout the United States of America and one Canadian province. The regulated subsidiaries provide water and wastewater services as public utilities in 16 U.S. states. The market-based subsidiaries include various lines of business including Homeowner Services, which provides water and sewer line protection plans for homeowners; Military Services Group, which conducts operation and maintenance of water and wastewater systems for military bases; and the Contract Operations Group, which conducts operation and maintenance of water and wastewater facilities for municipalities and the food and beverage industry.

Note 2: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AWW and its subsidiaries. Intercompany balances and transactions between subsidiaries have been eliminated. The Company uses the equity method to report its investments in joint ventures in which the Company holds a 50% voting interest and cannot exercise control over the operations and policies of the investments. Under the equity method, the Company records its interests as an investment and its percentage share of earnings as earnings or losses of investee.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers benefit plan assumptions; the estimates used in impairment testing of goodwill and other long-lived assets, including regulatory assets; revenue recognition; and accounting for income taxes to be its critical accounting estimates. The Company’s significant accounting estimates that are particularly sensitive to change in the near term are amounts reported for pension and other postemployment benefits, contingency-related obligations and goodwill.

Regulation

The Company’s regulated utilities are subject to economic regulation by the public utility commissions and the local governments of the states in which they operate (the “PUCs”). These PUCs have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with authoritative guidance applicable to those companies whose rates are established by or are subject to approval by an independent third-party PUC. Regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a market-based company. These deferred regulatory assets and liabilities are then reflected in the statement of operations in the period in which the costs and credits are reflected in the rates charged for service. (See Note 6)

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The cost of repairs; maintenance, including planned major maintenance activities; and minor replacements is charged to maintenance expense as incurred.

The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $319,517 and $303,798 at December 31, 2014 and 2013, respectively.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Nonutility property consists primarily of buildings and equipment utilized by the Company for internal operations. This property is stated at cost, net of accumulated depreciation calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to 50 years.

Cash and Cash Equivalents

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Restricted Funds

Restricted funds primarily represent proceeds from financings for the construction and capital improvement of facilities and deposits for future services under operation and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Classification of restricted funds in the balance sheet as either current or long-term is based upon the intended use of the funds.

Accounts and Unbilled Receivables

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable PUCs and collateral is generally not required. Also included are market-based trade accounts receivable and nonutility customer receivables of the regulated subsidiaries. Unbilled receivables are accrued when service has been provided but has not been billed to customers.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company’s inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes off accounts when they become uncollectible. (See Note 5)

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. A provision is made to reduce excess or obsolete inventory to its net realizable value.

Goodwill

Goodwill is primarily associated with the acquisitions of AWW in 2003 and E’town Corporation in 2001 (the “Acquisitions”) and has been assigned to reporting units based on the fair values at the date of the Acquisitions. The reporting units in the Regulated Businesses segment are aggregated into a single reporting unit. The Market-Based Operations segment is comprised of three reporting units. Goodwill is tested annually or more frequently if changes in circumstances indicate goodwill may be impaired. Impairment exists when the carrying value of a reporting unit exceeds its fair value. Annual impairment tests are performed in the fourth quarter of the calendar year, in conjunction with the timing of the completion of the Company’s annual strategic business plan.

The Company considers the carrying value of goodwill to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to value goodwill to be appropriate. However, if experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the consolidated financial statements.

Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the asset and compares that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recorded.

The Company considers the estimates used in the determination of fair value of long-lived assets to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to evaluate the carrying value of long-lived assets are appropriate. However, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the consolidated financial statements.

The key variables to determine fair value include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties, since they are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset’s carrying value exceeds its fair value.

The long-lived assets of the regulated utility subsidiaries are tested on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The Company holds other investments including investments in privately held companies and investments in joint ventures accounted for using the equity method. The Company’s investments in privately held companies and joint ventures are classified as other long-term assets.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which the Company invests, as well as volatility inherent in the external markets. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset’s carrying value exceeds its fair value.

Advances for Construction and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances for construction (“advances”) and contributions in aid of construction (“contributions”) from customers, home builders and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Included in other current liabilities at December 31, 2014 and 2013 in the accompanying Consolidated Balance Sheets are estimated refunds of $18,366 and $17,308, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. In accordance with applicable regulatory guidelines, some of the Company’s subsidiaries do not amortize contributions, and any contribution received remains on the balance sheet indefinitely. Amortization of contributions in aid of construction was $23,913, $22,363 and $20,979 for the years ended December 31, 2014, 2013 and 2012, respectively.

Recognition of Revenues

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are provided, and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period.

The Company has agreements with the United States Government to operate and maintain water and wastewater systems at various military bases pursuant to 50-year contracts (“military agreements”). These contracts also include construction components that are accounted for separately from the operations and management components. The military agreements are subject to periodic price redetermination adjustments and modifications for changes in circumstance. Additionally, the Company has agreements ranging in length from two to 40 years with various industries and municipalities to operate and maintain water and wastewater systems (“O&M agreements”). Revenues from operations and management services are recognized as services are provided. (See Note 14)

Construction Contracts

Revenues from construction projects are recognized over the contract term based on the costs incurred to date during the period compared to the total estimated costs over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred by the regulated utility subsidiaries and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Allowance for Funds Used During Construction (“AFUDC”)

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. The regulated utility subsidiaries record AFUDC to the extent permitted by the PUCs.

Environmental Costs

The Company’s water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $2,200 and $3,300 at December 31, 2014 and 2013, respectively. The accrual relates entirely to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration (“NOAA”) requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 to 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company’s regulatory assets at December 31, 2014 and 2013 include $7,791 and $8,027, respectively, related to the NOAA agreement.

Derivative Financial Instruments

The Company uses derivative financial instruments for purposes of hedging exposures to fluctuations in interest rates. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as a hedge of the fair value of a recognized asset or liability (fair-value hedge) or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge).

Changes in the fair value of a fair-value hedge, along with the gain or loss on the underlying hedged item, are recorded in current-period earnings. The effective portion of gains and losses on cash-flow hedges are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Any ineffective portion of designated hedges is recognized in current-period earnings.

Cash flows from derivative contracts are included in net cash provided by operating activities.

New Accounting Standards

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 was effective on a retrospective basis for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated 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 was effective prospectively for interim and annual periods beginning after December 15, 2013, which for the Company was January 1, 2014. The adoption of this updated guidance did not have an impact on the Company's results of operations, financial position or cash flows.

The following recently issued 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 after December 15, 2014, which for the Company is January 1, 2015. The adoption of this updated guidance resulted in a decrease to nonutility property and opening retained earnings of approximately $12,000 on January 1, 2015.

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 updated guidance is effective on a prospective basis for interim and annual periods on or after December 15, 2014, which for the Company is January 1, 2015. In general, this guidance is likely to result in fewer disposals of assets qualifying as discontinued operations, but will ultimately be based on the Company's future disposal activity.

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning December 15, 2016, which for the Company is January 1, 2017. Early adoption is not permitted. The new guidance allows for either full retrospective adoption, meaning the guidance is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The 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 updated guidance may be applied either: (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

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

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

Hybrid Financial Instruments Issued in the Form of a Share

In November 2014, the FASB updated the derivatives and hedging guidance requiring issuers of, or investors in, hybrid financial instruments to determine whether the nature of the host contract is more akin to a debt instrument or an equity instrument by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This update should be applied on a modified retrospective basis to hybrid financial instruments issued in the form of a share that exist at the beginning of an entity's fiscal year of adoption. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Extraordinary and Unusual Items

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

Reclassifications

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

In 2014 the Company revised its 2013 balance sheet to properly reclassify $17,722 of deferred income taxes from current liabilities to current assets. This reclassification was not material to the previously issued financial statements.

Note 3: Acquisitions and Divestitures

Acquisitions

During 2014, the Company closed on 13 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $8,935. Assets acquired, principally plant, totaled $16,592 including $354 of goodwill and liabilities assumed totaled $7,745, including $4,741 of contributions in aid of construction and assumed debt of $1,683.

During 2013, the Company closed on 15 acquisitions of various regulated water and wastewater systems for a total aggregate net purchase price of $23,658. Assets acquired (primarily utility plant) totaled $67,403, and liabilities assumed totaled $43,745, including $25,654 of contributions in aid of construction and assumed debt of $12,673. Included in these totals was the Company’s November 14, 2013 acquisition of all of the capital stock of Dale Service Corporation (“Dale”), a regulated wastewater utility company, for a total cash purchase price of $5,090 (net of cash acquired of $6,910), plus assumed liabilities. The Dale acquisition added approximately twenty thousand wastewater customers to the Company’s existing water services footprint in Northern Virginia. The Dale acquisition was accounted for as a business combination; accordingly, operating results from November 14, 2013 were included in the Company’s results of operations. The purchase price was allocated to the net tangible and intangible assets based upon their estimated fair values at the date of acquisition. The Company’s regulatory practice has been followed whereby property, plant and equipment (rate base) is considered fair value for business combination purposes. Similarly, regulatory assets and liabilities acquired have been recorded at book value and are subject to regulatory approval where applicable. The acquired debt was valued in a manner consistent with the Company’s Level 3 debt. (See Note 16) Non-cash assets acquired in the Dale acquisition (primarily utility plant) totaled $40,999; liabilities assumed totaled $35,909, including debt assumed of $12,570 and contributions of $19,163.

During 2012, the Company closed on 10 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $44,560. Included in this total was the Company’s May 1, 2012 acquisition of all of the capital stock of Aqua New York, Inc. for a total cash purchase price of $36,688 plus assumed liabilities. Assets acquired in the Aqua New York acquisition totaled $102,727, including $59,139 of plant, $27,400 of regulatory assets, and $12,181 of goodwill; liabilities assumed totaled $66,039, including long-term debt of $25,215, $11,885 of regulatory liabilities, $15,424 of deferred taxes, $1,708 of other liabilities, $1,060 of contributions in aid of construction and $9,710 of pension and postretirement welfare liabilities. Assets acquired (primarily utility plant) in the other nine acquisitions during 2012 totaled $12,514; liabilities assumed totaled $4,642.

Divestitures

In November 2014, the Company completed the sale of Terratec, previously included in the Market-Based Operations segment. After post-close adjustments, net proceeds from the sale totaled $1,455, and the Company recorded a pretax loss on sale of $1,454.

In January 2012, the Company completed the sale of its Arizona and New Mexico subsidiaries. After post-close adjustments, net proceeds from the sale totaled $458,860, and the Company recorded a pretax loss on sale of $2,198.

In May 2012, the Company completed the sale of its Ohio subsidiary. After post-close adjustments, net proceeds from the sale totaled $102,154, and the Company recorded a pretax loss on sale of $4,095.

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

	Years Ended December 31, 2014	2013	2012
Operating revenues	$ 13,614	$ 22,922	$ 42,341
Total operating expenses, net	19,482	25,389	49,726
Operating loss	(5,868)	(2,467)	(7,385)
Other income (expenses), net	—	—	(167)
Income (loss) from discontinued operations before income taxes	(5,868)	(2,467)	(7,552)
Provision (benefit) for income taxes	865	(887)	7,980
Income (loss) from discontinued operations	$ (6,733)	$ (1,580)	$ (15,532)

The provision for income taxes of discontinued operations includes the recognition of tax expense related to the difference between the tax basis and book basis of assets upon the sales of Terratec, 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.

Assets and liabilities of discontinued operations at December 31, 2013 relate to the discontinued Terratec business that was sold in November 2014. The classification for the year ended December 31, 2013 was as follows:

	2013
ASSETS	
Total property, plant and equipment	$ 2,808
Current assets	4,953
Total assets of discontinued operations	$ 7,761
LIABILITIES	
Current liabilities	$ 3,824
Total liabilities of discontinued operations	$ 3,824

There were no assets or liabilities of discontinued operations in the accompanying Consolidated Balance Sheet at December 31, 2014.

Note 4: Utility Plant

The major classes of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2014	2013
Water plant			
Land and other non-depreciable assets		$ 137,199	$ 132,295
Sources of supply	11 to 127 Years	680,623	659,249
Treatment and pumping facilities	3 to 101 Years	2,969,411	3,006,140
Transmission and distribution facilities	9 to 156 Years	7,962,759	7,489,208
Services, meters and fire hydrants	9 to 122 Years	3,062,568	2,898,293
General structures and equipment	1 to 154 Years	1,035,857	995,186
Wastewater plant	2 to 115 Years	739,963	683,112
Construction work in progress		303,004	275,202
		16,891,384	16,138,685
Less accumulated depreciation		3,991,680	3,894,326
		$ 12,899,704	$ 12,244,359

Utility plant depreciation expense of continuing operations amounted to $356,952 in 2014, $337,653 in 2013 and $314,639 in 2012. The Company's regulated utility subsidiaries record depreciation in conformity with amounts approved by state regulators after regulatory review of information the Company submits to support its estimates of the assets' remaining useful lives.

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.94% in 2014, 2013 and 2012.

Note 5: Allowance for Uncollectible Accounts

The following table summarizes the changes in the Company's allowances for uncollectible accounts:

	2014	2013	2012
Balance at January 1	$ (33,823)	$ (26,744)	$ (18,902)
Amounts charged to expense	(36,717)	(26,953)	(26,701)
Amounts written off	42,886	23,914	22,607
Recoveries of amounts written off	(7,287)	(4,040)	(3,748)
Balance at December 31	$ (34,941)	$ (33,823)	$ (26,744)

Note 6: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Except for income taxes, regulatory assets are excluded from the Company's rate base and generally do not earn a return. The components of regulatory assets at December 31 are as follows:

	2014	2013
Income taxes recoverable through rates	$ 228,601	$ 242,902
Debt and preferred stock expense	71,403	72,349
Deferred pension expense	263,486	109,799
Deferred other postretirement benefit expense	106,792	3,653
Deferred business services project expense	7,530	7,763
Deferred tank painting costs	37,207	33,519
Deferred rate case expense	6,785	9,407
Purchase premium recoverable through rates	60,412	60,787
Environmental remediation recoverable through rates	7,791	8,027
Coastal water project costs	8,386	16,826
San Clemente Dam project costs	71,891	44,404
Removal costs recoverable through rates	163,123	126,771
Regulatory balancing accounts	60,043	63,083
Other	59,979	59,175
	$ 1,153,429	$ 858,465

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the regulatory authorities of full normalization for rate making purposes. Full normalization requires no flow through of tax benefits to customers. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over approximately 30 years from date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain subsidiaries. These costs will be recovered in future service rates as contributions are made to the pension plan. The Company also has a regulatory asset of $248,641 and $90,380 at December 31, 2014 and 2013, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Postretirement benefit expense in excess of the amount recovered in rates through 1997 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service and will be recovered as authorized by the Company’s regulatory authorities. The Company also has a regulatory asset of $107,236 and $3,113 at December 31, 2014 and 2013, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that began operations in 2001. These costs are recognized in the rates charged for water service by certain subsidiaries.

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from five to 15 years, as authorized by the regulatory authorities in their determination of rates charged for service.

The Company amortizes rate case expenditures over regulatory approved amortization periods, typically three years. Rate case proceeding expenditures probable of future recovery are deferred.

Purchase premium recoverable through rates is primarily the recovery of the acquisition premiums related to an asset acquisition by the Company’s California subsidiary during 2002, and acquisitions in 2007 by the Company’s New Jersey subsidiary. As authorized for recovery by the California and New Jersey PUCs, these costs are being amortized to operations through November 2048.

Environmental remediation recoverable through rates is the recovery of costs incurred by the Company’s California subsidiary under a settlement agreement entered into with NOAA to improve habitat conditions in the Carmel River Watershed.

Coastal water project costs include preliminary costs associated with the studying, testing and design of alternatives to help solve water supply shortages in Monterey, California. Coastal water project costs incurred through December 31, 2010 have been reviewed and approved for recovery through a surcharge. Costs deferred during 2014, 2013 and 2012 totaled $1,923, $1,299 and $1,987, respectively. The Company believes it is probable that the costs incurred since the last rate review will also be recoverable.

San Clemente Dam project costs represent costs incurred and deferred by the Company’s California subsidiary pursuant to its efforts to investigate alternatives to strengthen or remove the dam due to potential earthquake and flood safety concerns. In June 2012, the California Public Utility Commission (“CPUC”) issued a decision authorizing implementation of a project to reroute the Carmel River and remove the San Clemente Dam. The project includes the Company’s California subsidiary, the California State Conservancy and the National Marine Fisheries Services. Under the order’s terms, the CPUC has authorized recovery of all previous pre-construction costs incurred by the Company’s subsidiary, and has authorized additional expenditures to be capped at $49,000 for the reroute and dam removal efforts and $2,500 for estimated interim dam safety measures. All pre-construction costs, totaling $24,303, are to be recovered via a surcharge over a 20-year period beginning October 2012; surcharge collections in 2014 and 2013 totaled $4,531 and $3,753, respectively. Costs deferred in addition to the pre-construction costs totaled $26,023 and $12,394 as of December 31, 2014 and 2013, respectively.

Regulatory balancing accounts accumulate differences between revenues and authorized revenue requirements until they are collected from customers or are refunded. Regulatory balancing accounts include low income programs and purchased power and water accounts.

Other regulatory assets include certain deferred employee benefit costs which are deferred because the amounts are being recovered in rates or are probable of recovery through rates in future periods.

The components of regulatory liabilities at December 31 are as follows:

	2014	2013
Removal costs recovered through rates	$ 300,635	$ 301,537
Pension and other postretirement benefit balancing accounts	53,734	40,837
Other	37,413	30,945
	$ 391,782	$ 373,319

Removal costs recovered through rates are retirement costs recovered during the life of the associated assets. In December 2008, the Company's subsidiary in New Jersey, at the direction of the New Jersey PUC, began to amortize $48,000 of the total balance into operations via straight line amortization through November 2048.

Pension and other postretirement benefit balancing accounts represent the difference between costs incurred and costs authorized by the PUC's.

Other regulatory liabilities include legal settlement proceeds, deferred gains, future customer refunds, and various regulatory balancing accounts.

Note 7: Goodwill

The Company's annual impairment test is performed as of November 30 of each year, in conjunction with the completion of the Company's annual strategic business plan. The Company assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company also undertakes interim reviews 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.

After assessing various events and circumstances in 2014, 2013 and 2012, the Company determined that no qualitative factors were present that would indicate the estimated fair values of its reporting units were less than the respective carrying values. As such, the Company determined that the two-step goodwill impairment test was not necessary at November 30, 2014, 2013 and 2012.

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies or decreases in control premiums. A decline in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in the Company's interest rates, could also result in an impairment charge.

The changes in the Company's carrying value of goodwill by reporting unit are as follows:

	Regulated Unit		Market-Based Operations		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
Goodwill from acquisitions	428	—	—	—	428	—	428
Reclassifications and other activity	86	—	—	—	86	—	86
Balance at December 31, 2013	$ 3,412,063	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,648,053	$ (2,440,289)	$ 1,207,764
Goodwill from acquisitions	354	—	—	—	354	—	354
Reclassifications and other activity	(75)	—	—	—	(75)	—	(75)
Balance at December 31, 2014	$ 3,412,342	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,648,332	$ (2,440,289)	$ 1,208,043

For further information on goodwill from acquisitions, refer to Note 3 of the Consolidated Financial Statements.

Note 8: 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 December 31, 2014, there were 4,611 shares available for future issuance under the DRIP. The following table summarizes information regarding issuances under the DRIP for the years ended December 31, 2014 and 2013:

	2014	2013
Shares of common stock issued	44	53
Cash proceeds received	$ 2,119	$ 2,171

Cash dividend payments made during 2014 and 2013 were as follows:

	2014	2013
Dividends per share, three months ended:		
March 31	$ 0.28	$ —
June 30	0.31	0.28
September 30	0.31	0.28
December 31	0.31	0.28
Total dividends paid, three months ended:		
March 31	$ 49,968	$ —
June 30	55,422	49,744
September 30	55,458	49,810
December 31	55,506	49,896

On December 12, 2014, the Company declared a quarterly cash dividend of $0.31 per share, payable on March 2, 2015 to shareholders of record as of February 9, 2015. As of December 31, 2014, the Company had accrued dividends totaling $55,552 included in other current liabilities on the accompanying Consolidated Balance Sheets.

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax:

	Defined Benefit Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial (Gain) Loss	Foreign Currency Translation	Loss on Cash Flow Hedge	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	73,472	—	—	(1,001)	—	72,471
Amounts reclassified from accumulated other comprehensive income (loss)	—	174	8,911	—	—	9,085
Net comprehensive income (loss) for the period	73,472	174	8,911	(1,001)	—	81,556
Ending balance at December 31, 2013	$ (69,711)	$ 713	$ 31,150	$ 3,213	$ —	$ (34,635)
Other comprehensive income (loss) before reclassifications	(46,119)	—	—	(458)	(820)	(47,397)
Amounts reclassified from accumulated other comprehensive income (loss)	—	166	(31)	—	29	164
Net comprehensive income (loss) for the period	(46,119)	166	(31)	(458)	(791)	(47,233)
Ending balance at December 31, 2014	$ (115,830)	$ 879	$ 31,119	$ 2,755	$ (791)	$ (81,868)

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 (loss) components are included in the computation of net periodic pension cost. (See Note 13)

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

Stock 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”). The total aggregate number of shares of common stock that may be issued under the Plan is 15,500. As of December 31, 2014, a total of 8,869 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 years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Stock options	$ 2,602	$ 3,170	$ 3,282
Restricted stock units	9,848	8,718	7,658
Employee stock purchase plan	593	586	530
Stock-based compensation in operation and maintenance expense	13,043	12,474	11,470
Income tax benefit	(5,087)	(4,865)	(4,473)
After-tax stock-based compensation expense	$ 7,956	$ 7,609	$ 6,997

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2014, 2013 and 2012.

The cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is measured based on the grant date fair value of the awards issued. The value of stock options and restricted stock unit awards at the date of the grant is amortized through expense over the three-year service period. All awards granted in 2014, 2013 and 2012 are classified as equity.

The Company receives a tax deduction based on the intrinsic value of the award at the exercise date for stock options and the distribution date for restricted stock units. For each award, throughout the requisite service period, the Company recognizes the tax benefits, which have been included in deferred tax assets, related to compensation costs. The tax deductions in excess of the benefits recorded throughout the requisite service period are recorded to shareholders' equity or the income statement and are included in the financing section of the statement of cash flows.

The Company stratified its grant populations and used historic employee turnover rates to estimate employee forfeitures. The estimated rate is compared to the actual forfeitures at the end of the period and adjusted as necessary.

Stock Options

In 2014, 2013 and 2012, 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 on January 1 of the year of grant. 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 for grants and the resulting weighted-average grant date fair value per share of stock options granted in the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Dividend yield	2.55%	2.52%	2.70%
Expected volatility	17.75%	23.50%	28.35%
Risk-free interest rate	1.06%	0.70%	0.78%
Expected life (years)	3.6	4.3	4.4
Exercise price	$ 44.29	$ 39.60	$ 34.14
Grant date fair value per share	$ 4.57	$ 5.78	$ 6.11

The Company utilized the "simplified method" to determine the expected stock option life due to insufficient historical experience to estimate the exercise patterns of the stock options granted. The Company began granting stock options at the time of its initial public offering in April 2008. Expected volatility is based on a weighted average of historic volatilities of traded common stock of peer companies (regulated water companies) over the expected term of the stock options and historic volatilities of the Company's common stock during the period it has been publicly traded. The dividend yield is based on the Company's expected dividend payments and the stock price on the date of grant. The risk-free interest rate is the market yield on U.S. Treasury strips with maturities similar to the expected term of the stock options. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Stock options vest over periods ranging from one to three years and expire seven years from the effective date of the grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model.

The value of stock options at the date of the grant is amortized through expense over the requisite service period using the straight-line method. As of December 31, 2014, $1,545 of total unrecognized compensation cost related to nonvested stock options is expected to be recognized over the remaining weighted-average period of 1.7 years. The total grant date fair value of stock options vested during the years ended December 31, 2014, 2013 and 2012 was $2,728, $3,512 and $3,219, respectively.

The table below summarizes stock option activity for the year ended December 31, 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	(62)	39.23		
Exercised	(574)	25.40		
Options outstanding at December 31, 2014	1,910	$ 33.47	3.9	$ 37,881
Exercisable at December 31, 2014	1,094	$ 27.68	2.8	$ 28,022

The following table summarizes additional information regarding stock options exercised during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Intrinsic value	$ 12,689	$ 15,102	$ 14,515
Exercise proceeds	14,582	20,211	22,112
Income tax benefit	3,885	4,383	4,017

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 was achieved, the restricted stock units would vest; if performance was surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, awards would be cancelled. In January 2014, an additional 113 restricted stock units were granted and distributed because performance thresholds were exceeded.

In 2014, 2013 and 2012, the Company granted restricted stock units, both with and without performance conditions, to certain employees under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1 of the year of the grant and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1 of the year of grant (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.

During 2014, 2013 and 2012, the Company granted restricted stock units to non-employee directors under the Plan. The restricted stock units vested on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (a) 15 months after grant date or (b) the participant’s separation from service. Because these restricted stock units vested on grant date, the total grant date fair value was recorded in operation and maintenance expense included in the expense table above on the grant date.

Restricted stock units generally vest over periods ranging from one to three years. 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. Restricted stock units granted with market conditions are valued using a Monte Carlo model. Expected volatility is based on historical volatilities of traded common stock of the Company and comparative companies using daily stock prices over the past three years. The expected term is three years and the risk-free interest rate is based on the three-year U.S. Treasury rate in effect as of the measurement date. The following table presents the weighted-average assumptions used in the Monte Carlo simulation and the weighted-average grant date fair values of restricted stock units granted during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Expected volatility	17.78%	19.37%	22.47%
Risk-free interest rate	0.75%	0.40%	0.43%
Expected life (years)	3	3	3
Grant date fair value per share	$ 45.45	$ 40.13	$ 37.40

The grant date fair value of restricted stock 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 December 31, 2014, $4,634 of total unrecognized compensation cost related to the nonvested restricted stock units is expected to be recognized over the weighted-average remaining life of 1.4 years. The total grant date fair value of restricted stock units vested during the years ended December 31, 2014, 2013 and 2012 was $10,829, $8,891 and $4,191, respectively.

The table below summarizes restricted stock unit activity for the year ended December 31, 2014:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2014	539	$ 36.27
Granted	228	45.45
Performance share adjustment	113	30.34
Vested	(337)	32.13
Forfeited	(27)	41.61
Non-vested total at December 31, 2014	516	$ 41.46

The following table summarizes additional information regarding restricted stock units distributed during the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Intrinsic value	$ 15,539	$ 13,983	$ 6,159
Income tax benefit	1,625	2,049	799

If dividends are paid with respect to shares of the Company’s common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $962, $648 and $1,168 to retained earnings during the years ended December 31, 2014, 2013 and 2012, respectively.

Employee Stock Purchase Plan

Under the Nonqualified Employee Stock Purchase Plan (“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 December 31, 2014, there were 1,261 shares of common stock reserved for issuance under the ESPP. The Company’s ESPP is considered compensatory. During the years ended December 31, 2014, 2013 and 2012, the Company issued 102, 111 and 118 shares, respectively, under the ESPP.

Note 9: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures of the regulated subsidiaries. The components of long-term at December 31 are:

	Rate	Weighted Average Rate	Maturity	2014	2013
Long-term debt of American Water Capital Corp. ("AWCC") (a)					
Private activity bonds and government funded debt					
Fixed rate	1.79%-6.25%	5.33%	2021-2040	$ 231,330	$ 330,732
Senior notes					
Fixed rate	3.40%-8.27%	5.43%	2016-2042	3,753,200	3,312,761
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate (b)	0.00%-6.20%	4.73%	2015-2041	795,472	863,716
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2015-2039	676,500	676,500
Mandatorily redeemable preferred stock	8.47%-9.75%	8.60%	2019-2036	17,252	18,902
Capital lease obligations	12.17%	12.17%	2026	885	913
Long-term debt				5,474,639	5,203,524
Unamortized debt, net (c)				31,168	35,984
Interest rate swap fair value adjustment				3,570	4,724
Total long-term debt				$ 5,509,377	$ 5,244,232

(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 $10,190 and $11,920 of variable rate debt with variable-to-fixed interest rate swaps ranging between 3.93% and 4.72%, at December 31, 2014 and 2013, respectively. This debt was assumed via an acquisition in 2013.

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

All $676,500 of the subsidiaries' mortgage bonds and $729,170 of the $795,472 total subsidiaries' private activity bonds and government funded debt at December 31, 2014 are collateralized by utility plant.

Long-term debt indentures contain a number of covenants that, among other things, limit, subject to certain exceptions, the Company from issuing debt secured by the Company's assets. Certain long term notes require the Company to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2014 was 0.55 to 1.00. In addition, the Company has $1,044,990 of notes which include the right to redeem the notes at par in whole or in part from time to time subject to certain restrictions.

The future sinking fund payments and maturities are as follows:

Year	Amount
2015	$ 61,132
2016	53,353
2017	572,775
2018	455,861
2019	164,909
Thereafter	4,166,609

The following long-term debt was issued in 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$ 500,000
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$ 510,474

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(1) Included in the issuance amounts for other subsidiaries private activity bonds and government funded debt above was $9,977, which was initially kept in Trust pending the Company's certification that it has incurred qualifying capital expenditures. These issuances have been presented as non-cash in the accompanying Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of these funds by the applicable Trust are reflected as the release of restricted funds and are included in investing activities in the accompanying Consolidated Statements of Cash Flows.

The Company incurred debt issuance costs of $4,593 related to the above issuances. The Company also assumed debt of $1,683 via an acquisition during 2014.

The following long-term debt was retired through optional redemption or payment at maturity during 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2018-2032	$ 101,085
AWCC	Senior notes—fixed rate	6.00%	2039	59,561
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	78,718
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other subsidiaries	Capital lease payments			28
Total retirements and redemptions				$ 241,042

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(1) Includes $1,021 of non-cash defeasance via the use of restricted funds.

Interest, net includes interest income of approximately $11,441, $11,753 and $12,652 in 2014, 2013 and 2012, respectively.

One of the principal market risks to which the Company is exposed is changes in interest rates. In order to manage the exposure, the Company follows risk management policies and procedures, including the use of derivative contracts such as swaps. The Company reduces exposure to interest rates by managing commercial paper and debt maturities. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments. The derivative contracts entered into are for periods consistent with the related underlying exposures. The Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company minimizes the counterparty credit risk on these transactions by dealing only with leading, credit-worthy financial institutions having long-term credit ratings of "A" or better.

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 and fixed rate debt fair value balances recorded by the Company as of December 31, 2014 and 2013, and the line items in the Consolidated Balance Sheets in which such amounts are recorded:

Balance sheet classification	2014	2013
Regulatory and other long-term assets		
Other	$ 3,636	$ 4,776
Long-term debt		
Long-term debt	3,570	4,724

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 gain or loss 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 gain or loss on the hedged item in interest expense for the years ended December 31 as follows:

Income statement classification	2014	2013	2012
Interest, net			
Gain (loss) on swap	$ (1,140)	$ (3,133)	$ 2,085
Gain (loss) on borrowing	1,154	2,991	(1,604)
Hedge ineffectiveness	14	(142)	481

Note 10: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $449,959 (net of discount of $41) and $630,307 (net of discount of $193) at December 31, 2014 and 2013, respectively. At December 31, 2014 there were no borrowings outstanding with maturities greater than three months.

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 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.

AWCC had the following available capacity under its commercial paper program at December 31:

	2014	2013
Commercial paper program	$ 1,000,000	$ 1,000,000
Commercial paper program available capacity	550,000	369,500

At December 31, AWCC had the following sub-limits and available capacity under each applicable credit facility:

	2014	2013
Letter of credit sublimit	$ 150,000	$ 150,000
Letter of credit available capacity	112,104	108,215

At December 31, 2014 and 2013, the Company had $37,896 and $41,785 of outstanding letters of credit, respectively, all of which were issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2014 and 2013:

	2014	2013(1)
Average borrowings	$ 548,530	$ 370,420
Maximum borrowings outstanding	745,000	829,250
Weighted average interest rates, computed on daily basis	0.31%	0.43%
Weighted average interest rates, at Dec 31	0.42%	0.36%

(1) 2013 average borrowings, maximum borrowings outstanding, and weighted average interest rates, computed on daily basis have been revised by immaterial amounts.

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2014 was 0.55 to 1.00.

None of the Company's borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company's credit facility.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on the Company's net position with the counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Note 11: General Taxes

Components of general tax expense from continuing operations for the years ended December 31 are as follows:

	2014	2013	2012
Gross receipts and franchise	$ 96,014	$ 96,044	$ 92,612
Property and capital stock	95,651	94,394	84,448
Payroll	30,698	30,985	32,335
Other general	14,369	12,775	11,363
	$ 236,732	$ 234,198	$ 220,758

Note 12: Income Taxes

Components of income tax expense from continuing operations for the years ended December 31 are as follows:

	2014	2013	2012
State income taxes			
Current	$ 11,055	$ 7,202	$ 26,604
Deferred			
Current	(287)	(405)	(280)
Non-current	30,788	26,821	24,256
	$ 41,556	$ 33,618	$ 50,580
Federal income taxes			
Current	$ 14,767	$ (19,995)	$ 31,482
Deferred			
Current	(1,528)	(1,324)	(2,031)
Non-current	226,572	226,295	178,274
Amortization of deferred investment tax credits	(1,394)	(1,501)	(1,518)
	238,417	203,475	206,207
	$ 279,973	$ 237,093	$ 256,787

A reconciliation of income tax expense from continuing operations at the statutory federal income tax rate to actual income tax expense for the years ended December 31 is as follows:

	2014	2013	2012
Income tax at statutory rate	$ 248,424	$ 212,777	$ 220,636
Increases (decreases) resulting from:			
State taxes, net of federal taxes	27,011	21,852	32,877
Change in valuation allowance	(2)	(455)	143
Flow through differences	3,467	3,217	3,032
Amortization of deferred investment tax credits	(1,394)	(1,501)	(1,518)
Subsidiary preferred dividends	532	584	634
Sec 162(m) Adjustment	980	—	—
Other, net	955	619	983
Actual income tax expense	$ 279,973	$ 237,093	$ 256,787

The following table provides the components of the net deferred tax liability from continuing operations at December 31:

	2014	2013
Deferred tax assets:		
Advances and contributions	$ 502,069	$ 510,122
Deferred investment tax credits	9,452	10,027
Other postretirement benefits	104,723	107,773
Tax losses and credits	197,288	265,640
Pension benefits	124,985	122,143
Unamortized debt discount, net	20,249	20,249
Other	32,159	23,001
	990,925	1,058,955
Valuation allowance	(10,379)	(13,555)
	$ 980,546	$ 1,045,400
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	$ 2,676,574	$ 2,478,617
Income taxes recoverable through rates	75,538	81,135
Deferred business services project expenses	4,584	4,584
Deferred other postretirement benefits	65,157	65,071
Deferred pension benefits	121,317	169,336
Other	71,514	69,632
	3,014,684	2,868,375
	$ (2,034,138)	$ (1,822,975)

At December 31, 2014 and 2013, the Company recorded federal net operating loss (“NOL”) carryforwards of $1,004,705 and $1,182,075, respectively. The 2014 balance does not include $14,325 of windfall tax benefits on stock-based compensation that will not be recorded to equity until the benefit is realized. The Company believes the federal NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company evaluated its ability to fully utilize the existing federal NOL carryforwards in light of the RWE divestiture in November 2009. Under Internal Revenue Code (“I.R.C.”) Section 382, an ownership change occurs if there is a greater than fifty percent (50%) change in equity ownership of a company over a three-year period determined by reference to the ownership of persons holding five percent (5%) or more of that company’s equity securities. If a company undergoes an ownership change as defined by I.R.C. Section 382, the company’s ability to utilize its pre-change NOL carryforwards to offset post-change income may be limited.

The Company believes that the limitation imposed by I.R.C. Section 382 generally should not preclude use of its federal NOL carryforwards, assuming the Company has sufficient taxable income in future carryforward periods to utilize those NOL carryforwards. The Company’s federal NOL carryforwards do not begin expiring until 2028.

At December 31, 2014 and 2013, the Company had state NOLs of $542,705 and $628,049, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOL carryforwards will expire between 2015 and 2033.

At December 31, 2014 and 2013, the Company had Canadian NOL carryforwards of $6,498 and $6,323, respectively. The majority of these carryforwards are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The Canadian NOL carryforwards will expire between 2015 and 2033.

The Company had capital loss carryforwards for federal income tax purposes of $3,844 at December 31, 2014 and 2013. The Company has recognized a full valuation allowance for the capital loss carryforwards because the Company does not believe these losses are more likely than not to be recovered.

The Company files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local or non-U.S. income tax examinations by tax authorities for years before 2008. For U.S. federal, tax year 2011 is also closed.

The Company has state income tax examinations in progress and does not expect material adjustments to result.

The Patient Protection and Affordable Care Act (the "PPACA") became law on March 23, 2010, and the Health Care and Education Reconciliation Act of 2010 became law on March 30, 2010, which makes various amendments to certain aspects of the PPACA (together, the "Acts"). The PPACA effectively changes the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. The Acts effectively make the subsidy payments taxable in tax years beginning after December 31, 2012 and as a result, the Company followed its original accounting for the underfunded status of the other postretirement benefits for the Medicare Part D adjustment and recorded a reduction in deferred tax assets and an increase in its regulatory assets amounting to $6,348 and $6,241 at December 31, 2014 and 2013, respectively.

The following table summarizes the changes in the Company's gross liability, excluding interest and penalties, for unrecognized tax benefits:

Balance at January 1, 2013	$	180,993
Increases in current period tax positions		27,229
Decreases in prior period measurement of tax positions		(30,275)
Balance at December 31, 2013	$	177,947
Increases in current period tax positions		53,818
Decreases in prior period measurement of tax positions		(36,528)
Balance at December 31, 2014	$	195,237

The total balance in the table above does not include interest and penalties of $157 and $242 as of December 31, 2014 and 2013, respectively, which is recorded as a component of income tax expense. The majority of the increased tax position is attributable to temporary differences. The increase in 2014 current period tax positions related primarily to the Company's change in tax accounting method filed in 2008 for repair and maintenance costs on its utility plant. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. If the Company sustains all of its positions at December 31, 2014 and 2013, an unrecognized tax benefit of $9,444 and $7,439, respectively, excluding interest and penalties, would impact the Company's effective tax rate.

The following table summarizes the changes in the Company's valuation allowance:

Balance at January 1, 2012	$	21,579
Increases in current period tax positions		—
Decreases in current period tax positions		(2,059)
Balance at December 31, 2012	$	19,520
Increases in current period tax positions		—
Decreases in current period tax positions		(5,965)
Balance at December 31, 2013	$	13,555
Increases in current period tax positions		—
Decreases in current period tax positions		(3,176)
Balance at December 31, 2014	$	10,379

Included in 2013 is a discrete tax benefit totaling $2,979 associated with an entity re-organization within the Company's Market-Based Operations segment that allowed for the utilization of state net operating loss carryforwards and the release of an associated valuation allowance.

Note 13: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering eligible employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for all employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. The Company does not participate in a multiemployer plan.

The Company's pension funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, the Company will consider additional contributions if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006. The Company may also consider increased contributions, based on other financial requirements and the plans' funded position. Pension plan assets are invested in a number of actively managed and commingled funds including equity and bond funds, fixed income securities, guaranteed interest contracts with insurance companies, real estate funds and real estate investment trusts ("REITs").

Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. (See Note 6)

The Company also has unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains other postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company's policy is to fund other postretirement benefit costs up to the amount recoverable through rates. Assets of the plans are invested in a number of actively managed commingled funds including equity and bond funds and fixed income securities.

The obligations of the pension and postretirement benefit plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future, the investment strategy is to allocate a significant percentage of assets to equities, which the Company believes will provide the highest return over the long-term period. The fixed income assets are invested in intermediate and long duration debt securities and may be invested in fixed income instruments, such as futures and options, in order to better match the duration of the plan liability.

The Company periodically conducts asset liability studies to ensure the investment strategies are aligned with the profile of the plans' obligations.

None of the Company's securities are included in pension or other postretirement benefit plan assets.

The Company uses fair value for all classes of assets in the calculation of market-related value of plan assets.

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted-average credit rating of A or better by Standard & Poor's.

The investment policies' objectives are focused on reducing the volatility of the plans' funding status over a long term horizon.

The fair values and asset allocations of pension plan assets at December 31, 2014, by asset category, follow:

Asset Category	Target Allocation 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2014
Cash	—	$ 8,370	$ 8,370	$ —	$ —	—
Equity securities:						
U.S. large cap	24%	342,081	342,081	—	—	24%
U.S. small cap value	8%	116,503	116,503	—	—	8%
International	20%	274,143	—	274,143	—	19%
Fixed income securities:	40%					41%
U.S. Treasury and government bonds	—	140,057	121,351	18,706	—	—
Corporate bonds	—	376,939	—	376,939	—	—
Mortgage-backed securities	—	4,285	—	4,285	—	—
Long duration bond fund	—	6,555	6,555	—	—	—
Guaranteed annuity contracts	—	51,517	—	8,987	42,530	—
Real estate	6%	84,821	—	—	84,821	6%
REITs	2%	22,889	—	22,889	—	2%
Total	100%	$ 1,428,160	$ 594,860	$ 705,949	$ 127,351	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	Level 3
Balance, January 1, 2014	$ 43,825
Actual return on assets	7,053
Purchases, issuances and settlements, net	76,473
Balance, December 31, 2014	$ 127,351

The fair values and asset allocations of pension plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Cash	—	$ 12,844	$ 12,844	$ —	$ —	—
Equity securities:						
U.S. large cap	24%	455,068	455,068	—	—	33%
U.S. small cap value	8%	139,571	139,571	—	—	10%
International	20%	295,226	615	294,611	—	21%
Fixed income securities:	40%					35%
U.S. Treasury and government bonds	—	81,200	76,222	4,978	—	—
Corporate bonds	—	209,500	—	209,500	—	—
Mortgage-backed securities	—	116,956	—	116,956	—	—
Long duration bond fund	—	5,177	5,177	—	—	—
Guaranteed annuity contracts	—	52,772	—	8,947	43,825	—
Real estate	6%	—	—	—	—	—
REITs	2%	15,307	—	15,307	—	1%
Total	100%	$ 1,383,621	$ 689,497	$ 650,299	$ 43,825	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	Level 3
Balance, January 1, 2013	$ 173,625
Actual return on assets	10,384
Purchases, issuances and settlements, net	(140,184)
Balance, December 31, 2013	$ 43,825

The Company's other postretirement benefit plans are partially funded and the assets are held under various trusts. The investments and risk mitigation strategies for the plans are tailored specifically for each trust. In setting new strategic asset mixes, consideration is given to the likelihood that the selected asset allocation will effectively fund the projected plan liabilities and the risk tolerance of the Company. The Company periodically updates the long-term, strategic asset allocations and uses various analytics to determine the optimal asset allocation. Considerations include plan liability characteristics, liquidity characteristics, funding requirements, expected rates of return and the distribution of returns.

In June 2012, the Company implemented a de-risking strategy for the medical bargaining trust within the plan to minimize volatility. As part of the de-risking strategy, the Company revised the asset allocations to increase the matching characteristics of assets relative to liabilities. The initial de-risking asset allocation for the plan was 60% return-generating assets and 40% liability-driven assets. The investment strategies and policies for the plan reflect a balance of liability driven and return-generating considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset—liability matching, asset diversification and hedging. The fixed income target asset allocation matches the bond-like and long-dated nature of the postretirement liabilities. Assets are broadly diversified within asset classes to achieve risk-adjusted returns that in total lower asset volatility relative to the liabilities. The Company assesses the investment strategy regularly to ensure actual allocations are in line with target allocations as appropriate. Strategies to address the goal of ensuring sufficient assets to pay benefits include target allocations to a broad array of asset classes and, within asset classes strategies are employed to provide adequate returns, diversification and liquidity.

The assets of the Company's other trusts, within the other postretirement benefit plans, have been primarily invested in equities and fixed income funds. The assets under the various other postretirement benefit trusts are invested differently based on the assets and liabilities of each trust. The obligations of the other postretirement benefit plans are dominated by obligations for the medical bargaining trust. Thirty-nine percent and four percent of the total postretirement plan benefit obligations are related to the medical non-bargaining and life insurance trusts, respectively. Because expected benefit payments related to the benefit obligations are so far into the future, and the size of the medical non-bargaining and life insurance trusts' obligations are large compared to each trusts' assets, the investment strategy is to allocate a significant portion of the assets' investment to equities, which the Company believes will provide the highest long-term return and improve the funding ratio.

The Company engages third party investment managers for all invested assets. Managers are not permitted to invest outside of the asset class (e.g., fixed income, equity, alternatives) or strategy for which they have been appointed. Investment management agreements and recurring performance and attribution analysis are used as tools to ensure investment managers invest solely within the investment strategy they have been provided. Futures and options may be used to adjust portfolio duration to align with a plan's targeted investment policy.

In order to minimize asset volatility relative to the liabilities, a portion of plan assets is allocated to fixed income investments that are exposed to interest rate risk. Increases in interest rates generally will result in a decline in the value of fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities. Within equities, risk is mitigated by constructing a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process.

Actual allocations to each asset class vary from target allocations due to periodic investment strategy updates, market value fluctuations, the length of time it takes to fully implement investment allocation, and the timing of benefit payments and contributions. The asset allocation is rebalanced on a quarterly basis, if necessary.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2014, by asset category, follow:

Asset Category	Target Allocation 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2014
Bargain VEBA:						
Cash	—	$ 189	$ 189	$ —	—	—
Equity securities:						
U.S. large cap	9%	34,168	34,168	—	—	9%
U.S. small cap value	—	—	—	—	—	—
International	11%	40,232	40,232	—	—	10%
Fixed income securities:	80%					81%
U.S. Treasury securities and government bonds	—	155,087	155,087	—	—	—
Corporate bonds	—	168,317	—	168,317	—	—
Long duration bond fund	—	3,245	3,245	—	—	—
Future and option contracts (a)	—	387	387	—	—	—
Total bargain VEBA	100%	$ 401,625	$ 233,308	$ 168,317	—	100%
Non-bargain VEBA:						
Cash	—	$ 636	$ 636	$ —	—	—
Equity securities:						
U.S. large cap	21%	21,966	21,966	—	—	21%
U.S. small cap value	21%	21,123	21,122	1	—	21%
International	28%	28,611	28,611	—	—	28%
Fixed income securities:	30%					30%
Core fixed income bond fund	—	30,762	30,762	—	—	—
Total non-bargain VEBA	100%	$ 103,098	$ 103,097	$ 1	—	100%
Life VEBA:						
Cash	—	$ 65	$ 65	$ —	—	—
Equity securities:						
U.S. large cap	70%	4,924	4,924	—	—	67%
Fixed income securities:	30%					33%
Core fixed income bond fund	—	2,336	2,336	—	—	—
Total life VEBA	100%	$ 7,325	$ 7,325	$ —	—	100%
Total	100%	$ 512,048	$ 343,730	$ 168,318	—	100%

(a) Includes cash for margin requirements.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Bargain Veba:						
Cash	—	$ 689	$ 689	$ —	—	—
Equity securities:						
U.S. large cap	18%	72,108	72,108	—	—	19%
U.S. small cap value	7%	26,574	26,574	—	—	7%
International	15%	55,888	55,888	—	—	15%
Fixed income securities:	60%					59%
U.S. Treasury securities and government bonds	—	95,010	91,578	3,432	—	—
Corporate bonds	—	117,843	—	117,843	—	—
Long duration bond fund	—	2,043	2,043	—	—	—
Future and option contracts (a)	—	620	620	—	—	—
Total bargain VEBA	100%	$ 370,775	$ 249,500	$ 121,275	—	100%
Non-bargain VEBA:						
Cash	—	$ 3,451	$ 3,451	$ —	—	—
Equity securities:						
U.S. large cap	21%	41,430	41,430	—	—	43%
U.S. small cap value	21%	—	—	—	—	0%
International	28%	27,739	27,739	—	—	29%
Fixed income securities:	30 %					28%
Core fixed income bond fund	—	23,563	23,563	—	—	—
Total non-bargain VEBA	100%	$ 96,183	$ 96,183	$ —	—	100%
Life VEBA:						
Cash	—	$ 27	$ 27	$ —	—	—
Equity securities:						
U.S. large cap	70%	5,527	5,527	—	—	71%
Fixed income securities:	30%					29%
Core fixed income bond fund	—	2,206	2,206	—	—	—
Total Life VEBA	100%	$ 7,760	$ 7,760	$ —	—	100%
Total	100%	$ 474,718	$ 353,443	$ 121,275	—	100%

(a) Includes cash for margin requirements.

Valuation Techniques Used to Determine Fair Value

Cash—Cash and investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash and are included in the recurring fair value measurements hierarchy as Level 1.

Equity securities—For equity securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, that the Company is able to independently corroborate. Equity securities are valued based on quoted prices in active markets and categorized as Level 1. Certain equities, such as international securities held in the pension plan are invested in commingled funds. These funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since net asset value is not directly observable or not available on a nationally recognized securities exchange for the commingled funds, they are categorized as Level 2.

Fixed-income securities—The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets that the Company can corroborate. The fair values of corporate bonds, mortgage backed securities, certain government bonds and a guaranteed annuity contract are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, and have been categorized as Level 2 because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate. Certain other guaranteed annuity contracts are categorized as Level 3 because the investments are not publicly quoted. The fund administrator values the fund using the net asset value per fund share, derived from the quoted prices in active markets of the underlying securities. Since these valuation inputs are not highly observable, these contracts have been categorized as Level 3. Exchange-traded future and option positions are reported in accordance with changes in daily variation margins that are settled daily. Exchange-traded options and futures, for which market quotations are readily available, are valued at the last reported sale price or official closing price on the primary market or exchange on which they are traded and are classified as Level 1.

Real estate fund—Real estate fund is valued using the net asset value based on valuation models of underlying securities which generally include significant unobservable inputs that cannot be corroborated using verifiable observable market data. Real estate fund is categorized as Level 3 as the fund uses significant unobservable inputs for fair value measurement.

REITs—REITs are invested in commingled funds. Commingled funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since the net asset value is not directly observable for the commingled funds, they are categorized as Level 2.

The following table provides a rollforward of the changes in the benefit obligation and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Change in benefit obligation				
Benefit obligation at January 1	$ 1,494,132	$ 1,621,244	$ 561,923	$ 687,082
Service cost	31,773	37,872	11,058	15,282
Interest cost	76,652	68,096	28,605	28,700
Plan participants' contributions	—	—	2,625	2,514
Actuarial (gain) loss	255,762	(180,688)	123,342	(148,410)
Gross benefits paid	(111,863)	(52,392)	(26,440)	(25,263)
Federal subsidy	—	—	2,159	2,018
Benefit obligation at December 31	$ 1,746,456	$ 1,494,132	$ 703,272	$ 561,923
Change in Plan Assets				
Fair value of plan assets at January 1	$ 1,383,621	$ 1,157,697	$ 474,718	$ 433,260
Actual return on plan assets	116,363	208,821	48,989	36,202
Employer contributions	40,039	69,495	12,156	28,005
Plan participants' contributions	—	—	2,625	2,514
Benefits paid	(111,863)	(52,392)	(26,440)	(25,263)
Fair value of plan assets at December 31	$ 1,428,160	$ 1,383,621	$ 512,048	$ 474,718
Funded status at December 31	$ (318,296)	$ (110,511)	$ (191,224)	$ (87,205)
Amounts recognized in the balance sheet consist of:				
Noncurrent asset	$ —	$ —	$ 1,326	$ 1,271
Current liability	(1,928)	(1,969)	(48)	(57)
Noncurrent liability	(316,368)	(108,542)	(192,502)	(88,419)
Net amount recognized	$ (318,296)	$ (110,511)	$ (191,224)	$ (87,205)

Benefits paid in 2014 includes $55,579 from a one-time lump sum window offering to retired vested participants.

The following table provides the components of the Company's accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Net actuarial loss	$ 379,743	$ 145,376	$ 119,566	$ 17,632
Prior service cost (credit)	3,694	4,418	(12,330)	(14,519)
Net amount recognized	$ 383,437	$ 149,794	$ 107,236	$ 3,113
Regulatory assets	$ 248,641	$ 90,380	$ 107,236	$ 3,113
Accumulated other comprehensive income	134,796	59,414	—	—
	$ 383,437	$ 149,794	$ 107,236	$ 3,113

At December 31, 2014 and 2013, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2014	2013
Projected benefit obligation	$ 1,746,000	$ 1,494,000
Fair value of plan assets	1,428,000	1,384,000

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2014	2013
Accumulated benefit obligation	$ 1,616,000	$ 43,000
Fair value of plan assets	1,428,000	17,000

The accumulated postretirement benefit obligation exceeds plan assets for all of the Company's other postretirement benefit plans.

In August 2006, the Pension Protection Act ("PPA") was signed into law in the U.S. The PPA replaces the funding requirements for defined benefit pension plans by requiring that defined benefit plans contribute to 100% of the current liability funding target over seven years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being "at risk" and additional funding requirements and benefit restrictions may apply. The PPA was effective for the 2008 plan year with short-term phase-in provisions for both the funding target and at-risk determination. The Company's qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the PPA. The Company is proactively monitoring the plan's funded status and projected contributions under the law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for the qualified defined benefit pension plan are determined by government regulations and not by accounting pronouncements. The Company plans to contribute amounts at least equal to the greater of the minimum required contributions or the normal cost in 2015 to the qualified pension plans. The Company plans to contribute to its 2015 other postretirement benefit cost for rate-making purposes.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

	Pension Benefits	Other Benefits
2015 expected employer contributions		
To plan trusts	$ 28,000	$ 26,500
To plan participants	1,929	104

The Company made 2015 contributions to fund pension benefits and other benefits of $6,100 and $6,632, respectively, through February 2015.

The following table reflects the net benefits expected to be paid from the plan assets or the Company's assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2015	$ 63,355	$ 27,897	$ 2,113
2016	69,673	30,672	2,295
2017	75,894	33,518	2,486
2018	82,063	36,502	2,678
2019	88,635	39,172	2,892
2020—2024	528,913	226,602	18,220

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits			Other Benefits		
	2014	2013	2012	2014	2013	2012
Weighted-average assumptions used to determine December 31 benefit obligations						
Discount rate	4.24%	5.12%	4.17%	4.24%	5.10%	4.16%
Rate of compensation increase	3.12%	3.15%	3.19%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 6.75% in 2014 to 5.00% in 2021+	graded from 7.00% in 2013 to 5.00% in 2019+	graded from 7.25% in 2012 to 5.00% in 2019+
Weighted-average assumptions used to determine net periodic cost						
Discount rate	5.12%	4.17%	5.02%	5.10%	4.16%	5.05%
Expected return on plan assets	6.91%	7.49%	7.75%	5.87%	6.99%	7.41%
Rate of compensation increase	3.15%	3.19%	3.25%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 7.00% in 2014 to 5.00% in 2019+	graded from 7.25% in 2013 to 5.00% in 2019+	graded from 7.50% in 2012 to 5.00% in 2019+

N/A - Assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. At year-end 2011, the Company began using an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a universe containing the majority of U.S.-issued AA-graded corporate bonds, all of which were non callable (or callable with make-whole provisions). Historically, for each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return, prior to administrative and investment management fees, for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company's pension expense increases as the expected return on assets decreases.

In the determination of year end 2014 projected benefit plan obligations, the Company adopted a new table based on the Society of Actuaries RP 2014 mortality table including a generational BB-2D projection scale. The adoption resulted in a significant increase to pension and other postretirement benefit plans' projected benefit obligations.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 5,943	$ (4,887)
Effect on other postretirement benefit obligation	$ 105,967	$ (86,179)

The following table provides the components of net periodic benefit costs for the years ended December 31:

	2014	2013	2012
Components of net periodic pension benefit cost			
Service cost	$ 31,773	$ 37,872	$ 34,209
Interest cost	76,652	68,096	70,866
Expected return on plan assets	(94,838)	(88,429)	(79,272)
Amortization of:			
Prior service cost (credit)	724	724	723
Actuarial (gain) loss	(131)	37,170	29,636
Settlement loss	—	—	7,135
Net periodic pension benefit cost	$ 14,180	$ 55,433	$ 63,297
Other changes in plan assets and benefit obligations recognized in other comprehensive income			
Amortization of prior service credit (cost)	$ (166)	$ (174)	$ (176)
Current year actuarial (gain) loss	46,119	(73,472)	26,425
Amortization of actuarial gain (loss)	31	(8,911)	(7,301)
Total recognized in other comprehensive income	$ 45,984	$ (82,557)	$ 18,948
Total recognized in net periodic benefit cost and comprehensive income	$ 60,164	$ (27,124)	$ 82,245
Components of net periodic other postretirement benefit cost			
Service cost	$ 11,058	$ 15,282	$ 14,207
Interest cost	28,605	28,700	31,570
Expected return on plan assets	(27,500)	(30,285)	(28,711)
Amortization of:			
Prior service cost (credit)	(81)	(2,189)	(1,915)
Actuarial (gain) loss	(2,189)	11,128	9,537
Other	—	—	(696)
Net periodic other postretirement benefit cost	$ 9,893	$ 22,636	$ 23,992

The Company's policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements.

Cumulative gains and losses that are in excess of 10% of the greater of either the projected benefit obligation or the fair value of plan assets are amortized over the expected average remaining future service of the current active membership for the plans.

The estimated amounts that will be amortized from accumulated other comprehensive income and regulatory assets into net periodic benefit cost in 2015 are as follows:

	Pension Benefits	Other Benefits
Actuarial (gain) loss	$ 25,108	$ 5,009
Prior service cost (credit)	754	(2,189)
Total	$ 25,862	$ 2,820

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. Plan expenses totaled $7,595 for 2014, $7,926 for 2013 and $7,990 for 2012. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 14: Commitments and Contingencies

Commitments

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legal and binding contractual obligations amounted to $217,082 at December 31, 2014.

The Company's regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. Purchased water expenses were approximately $124,334, $114,471 and $115,426 for the years ended December 31, 2014, 2013 and 2012, respectively. Future annual commitments related to minimum quantities of purchased water having non-cancelable terms in excess of one year at December 31, 2014 are $55,141 in 2015, $50,936 in 2016, $44,175 in 2017, $43,034 in 2018, $43,098 in 2019 and $441,206 thereafter.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company's military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenue of $2,543,778 at December 31, 2014. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company's Operations and Maintenance agreements with municipalities and other customers expire between 2015 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $865,803 at December 31, 2014. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2014, the Company has accrued approximately $5,000 as probable costs and it is reasonably possible that additional losses could range up to $30,100 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

On October 13, 2014, we entered into a settlement agreement with the Utility Workers Union of America ("UWUA") designed to resolve a dispute between our company and the labor unions representing employees in the Regulated Businesses ("the Unions"). Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, we agreed to make a $10 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of our last, best and final offer. The majority of the distributions are expected to be used to reimburse employees for medical claims which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates – Active Employees VEBA (the "VEBA Trust"), to which we previously have made contributions.

The Unions approved the settlement agreement on October 30, 2014, and the National Labor Relations Board (the "NLRB") approved the settlement agreement on October 31, 2014. The NLRB, UWUA and the Company filed a joint stipulation to dismiss the petition for review. The Seventh Circuit voluntarily dismissed all the parties' appeals on December 16, 2014. The NLRB will dismiss the unfair labor practice charge pending on the national benefits dispute when we have complied with the settlement agreement.

Note 15: Earnings per Common Share

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

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

	Years Ended December 31,		
Basic	**2014**	**2013**	**2012**
Income from continuing operations	$ 429,841	$ 370,844	$ 373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	423,108	369,264	358,070
Less: Distributed earnings to common shareholders	217,253	150,038	214,541
Less: Distributed earnings to participating securities	63	60	86
Undistributed earnings	205,792	219,166	143,443
Undistributed earnings allocated to common shareholders	205,735	219,082	143,385
Undistributed earnings allocated to participating securities	57	84	58
Total income from continuing operations available to common shareholders, basic	$ 429,721	$ 370,700	$ 373,458
Total income available to common shareholders, basic	$ 422,988	$ 369,120	$ 357,926
Weighted-average common shares outstanding, basic	178,888	177,814	176,445
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03

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

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

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

	Years Ended December 31,		
Diluted	2014	2013	2012
Total income from continuing operations available to common shareholders, basic	$ 429,721	$ 370,700	$ 373,458
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Total income available to common shareholders, basic	422,988	369,120	357,926
Undistributed earnings for participating securities	57	84	58
Total income from continuing operations available to common shareholders, diluted	$ 429,778	$ 370,784	$ 373,516
Total income available to common shareholders, diluted	$ 423,045	$ 369,204	$ 357,984
Weighted-average common shares outstanding, basic	178,888	177,814	176,445
Common stock equivalents:			
Restricted stock units	454	510	618
Stock options	463	730	607
Employee stock purchase plan	1	2	1
Weighted-average common shares outstanding, diluted	179,806	179,056	177,671
Diluted earnings per share (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01

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

The following potentially dilutive common stock equivalents were not included in the earnings per share calculations for the years ended December 31 because they were anti-dilutive:

	2014	2013	2012
Stock options	323	327	619
Restricted stock units where certain performance conditions were not met	—	20	19

Note 16: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

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

	Carrying	At Fair Value as of December 31, 2014			
	Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 17,151	$ —	$ —	$ 22,167	$ 22,167
Long-term debt (excluding capital lease obligations)	5,491,341	2,874,622	1,474,708	2,055,058	6,404,388

	Carrying	At Fair Value as of December 31, 2013			
	Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 18,827	$ —	$ —	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

Fair Value Measurements

To increase consistency and comparability in fair value measurements, FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds and money market funds.
- Level 2—inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.
- Level 3—unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of December 31, 2014 and 2013, respectively:

Recurring Fair Value Measures	At Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 45,182	$ —	$ —	$ 45,182
Rabbi trust investments	—	11,751	—	11,751
Deposits	4,158	—	—	4,158
Mark-to-market derivative asset	—	3,636	—	3,636
Total assets	49,340	15,387	—	64,727
Liabilities:				
Deferred compensation obligation	—	11,765	—	11,765
Mark-to-market derivative liability	—	1,012	—	1,012
Total liabilities	—	12,777	—	12,777
Total net assets	$ 49,340	$ 2,610	$ —	$ 51,950

Recurring Fair Value Measures	At Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 29,259	$ —	$ —	$ 29,259
Rabbi trust investments	—	444	—	444
Deposits	1,901	—	—	1,901
Mark-to-market derivative asset	—	4,776	—	4,776
Total assets	31,160	5,220	—	36,380
Liabilities:				
Deferred compensation obligation	—	11,928	—	11,928
Mark-to-market derivative liability	—	1,276	—	1,276
Total liabilities	—	13,204	—	13,204
Total net assets (liabilities)	$ 31,160	$ (7,984)	$ —	$ 23,176

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to year end are classified as current. Also included in the above restricted funds in 2014 is $22,366 of money market funds held in trust for active employee benefits.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments and mutual funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

See Note 13 for the Company's fair value of qualified pension and postretirement welfare plans' assets.

Non-recurring Fair Value Measurements

As discussed in Note 7, the Company recognized continuing operations goodwill impairment charges of $0 for each of the years ended December 31, 2014, 2013 and 2012, respectively. The Company's goodwill valuation model includes significant unobservable inputs and falls within Level 3 of the fair value hierarchy.

Note 17: Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $21,885 for 2014, $23,351 for 2013 and $27,945 for 2012. The operating leases for facilities will expire over the next 20 years and the operating leases for equipment will expire over the next five years. Certain operating leases have renewal options ranging from one to five years.

At December 31, 2014, the minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are $14,007 in 2015, $11,898 in 2016, $10,970 in 2017, $9,763 in 2018, $9,457 in 2019 and $81,617 thereafter.

The Company has a series of agreements with various public entities (the “Partners”) to establish certain joint ventures, commonly referred to as “public-private partnerships.” Under the public-private partnerships, the Company constructed utility plant, financed by the Company and the Partners constructed utility plant (connected to the Company’s property), financed by the Partners. The Company agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds (“IDBs”), issued by the Partners under a state Industrial Development Bond and Commercial Development Act. The Company leased back the total facilities, including portions funded by both the Company and the Partners, under leases for a period of 40 years.

The leases related to the portion of the facilities funded by the Company have required payments from the Company to the Partners that approximate the payments required by the terms of the IDBs from the Partners to the Company (as the holder of the IDBs). As the ownership of the portion of the facilities constructed by the Company will revert back to the Company at the end of the lease, the Company has recorded these as capital leases. The lease obligation and the receivable for the principal amount of the IDBs are presented by the Company on a net basis. The gross cost of the facilities funded by the Company recognized as a capital lease asset was $156,819 and $158,115 at December 31, 2014 and 2013, respectively, which is presented within utility plant. The future payments under the lease obligations are equal to and offset by the payments receivable under the IDBs.

At December 31, 2014, the minimum annual future rental commitment under the operating leases for the portion of the facilities funded by the Partners that have initial or remaining non-cancelable lease terms in excess of one year included in the preceding minimum annual rental commitments are $3,755 in 2015 through 2019, and $73,318 thereafter.

Note 18: Segment Information

The Company has two operating segments referred to as the Regulated Businesses and Market-Based Operations segments. The Company’s chief operating decision maker regularly reviews the operating results of the Regulated Businesses and Market-Based Operations segments to assess segment performance and allocate resources. The evaluation of segment performance and the allocation of resources are based on several measures. The measure that is most consistent with that used by management is income from continuing operations before income tax.

The Regulated Businesses segment includes the Company’s 18 utility subsidiaries in continuing operations that provide water and wastewater services to customers in 16 U.S. states. The Market-Based Operations segment is comprised of market-based businesses that provide a broad range of water and wastewater services and products including homeowner water and sewer line maintenance services and water and wastewater facility operations and maintenance services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. (See Note 2) The Regulated Businesses and Market-Based Operations segment information includes intercompany costs that are allocated by American Water Works Service Company, Inc. and intercompany interest that is charged by AWCC, which are eliminated to reconcile to the consolidated results of operations. Inter-segment revenues, which are primarily recorded at cost plus mark-up that approximates current market prices, includes leased office space, furniture and equipment provided by the Company's market-based subsidiaries to its regulated subsidiaries. Other includes corporate costs that are not allocated to the Company's subsidiaries, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the Acquisitions that have not been allocated to the segments for evaluation of segment performance and allocation of resource purposes. The adjustments related to the Acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management. The following table includes the Company's summarized segment information:

	As of or for the Year Ended December 31, 2014			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,674,329	$ 354,679	$ (17,680)	$ 3,011,328
Depreciation and amortization	394,097	5,790	24,197	424,084
Total operating expenses, net	1,725,651	299,549	(16,448)	2,008,752
Income from continuing operations before income taxes	707,449	57,539	(55,174)	709,814
Total assets	14,342,837	314,253	1,473,866	16,130,956
Capital expenditures	946,306	9,813	—	956,119
Capital expenditures of discontinued operations (included in capital expenditures above)	—	12	—	12

	As of or for the Year Ended December 31, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues (1)	$ 2,593,918	$ 302,541	$ (17,523)	$ 2,878,936
Depreciation and amortization (1)	375,939	6,012	24,766	406,717
Total operating expenses, net (1)	1,700,052	252,302	(21,734)	1,930,620
Income from continuing operations before income taxes (1)	654,834	53,104	(100,001)	607,937
Total assets	13,447,696	286,048	1,354,398	15,088,142
Assets of discontinued operations (included in total assets above)	—	7,761	—	7,761
Capital expenditures	973,301	6,951	—	980,252
Capital expenditures of discontinued operations (included in capital expenditures above)	—	517	—	517

	As of or for the Year Ended December 31, 2012			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues (1)	$ 2,564,434	$ 307,366	$ (17,874)	$ 2,853,926
Depreciation and amortization (1)	349,629	5,560	25,213	380,402
Total operating expenses, net (1)	1,685,734	266,005	(21,917)	1,929,822
Income from continuing operations before income taxes (1)	649,117	44,948	(63,676)	630,389
Total assets	12,680,856	260,255	1,777,865	14,718,976
Assets of discontinued operations (included in total assets above)	—	7,646	—	7,646
Capital expenditures	921,500	7,074	—	928,574
Capital expenditures of discontinued operations (included in capital expenditures above)	2,884	705	—	3,589

(1) The information has been restated to reflect the impact of discontinued operations, as applicable. See Note 3 for additional details on the Company's discontinued operations.

Note 19: Unaudited Quarterly Data

The following table sets forth certain supplemental unaudited consolidated quarterly financial data for each of the four quarters in the years ended December 31, 2014 and 2013, respectively. The operating results for any quarter are not indicative of results that may be expected for a full year or any future periods:

2014	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
		(In thousands, except per share data)		
Net operating revenues	$ 679,003	$ 754,778	$ 846,169	$ 731,378
Operating income	187,442	254,788	337,285	223,061
Income from continuing operations	69,113	110,174	156,608	93,946
Net income	68,123	109,299	152,185	93,501
Basic earnings per common share:				
Income from continuing operations	0.39	0.62	0.87	0.52
Net income	0.38	0.61	0.85	0.52
Diluted earnings per common share:				
Income from continuing operations	0.39	0.61	0.87	0.52
Net income	0.38	0.61	0.85	0.52

2013	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
		(In thousands, except per share data)		
Net operating revenues	$ 631,939	$ 718,565	$ 822,190	$ 706,242
Operating income	165,324	242,031	323,166	217,795
Income from continuing operations	58,445	101,369	149,909	61,121
Net income	57,643	101,263	150,665	59,693
Basic earnings per common share:				
Income from continuing operations	0.33	0.57	0.84	0.34
Net income	0.32	0.57	0.85	0.33
Diluted earnings per common share:				
Income from continuing operations	0.33	0.57	0.84	0.34
Net income	0.32	0.57	0.84	0.33

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of December 31, 2014 pursuant to Rule15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2014, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting, as of December 31, 2014, using the criteria described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the framework in Internal Control—Integrated Framework (2013) issued by COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There were no changes to our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. The program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions. The Program will be conducted in accordance with Rule 10b-18 of the Exchange Act, as amended, and, to facilitate repurchases, the Company has also entered into with a broker a Rule 10b5-1 share repurchase plan. By having the Program administered through a Rule 10b5-1 plan, the Company will be able to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the Rule 10b5-1 parameters at its discretion.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information required by this item and not given below, is incorporated by reference in the Company’s Proxy Statement for the 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the fiscal year covered by this report, under the captions entitled “Nominees for Election as Directors,” “Information Relative to the Board of Directors and Committees of the Board of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Code of Ethics and Corporate Governance Guidelines.”

We have adopted a Code of Ethics, which applies to directors and employees. The full text of the Code of Ethics is publicly available on our website at *http://www.amwater.com*. We intend to post on our website any amendments to certain provisions of our Code of Ethics and any waivers of such provisions granted to principal officers.

Name	Age	Office and Employment During Last Ten Years
Susan N. Story	55	Ms. Story was elected President and Chief Executive Officer (CEO) on May 9, 2014. Prior to that she served as Senior Vice President and Chief Financial Officer from April 2013 until May 2014. She was previously employed for over 30 years by Southern Company, which owns and operates electric utilities in four states, and also is engaged in electric wholesale generation and telecommunications, including both wireless and wireline, fiber optic communications. Ms. Story was an executive officer of Southern Company from 2003 until she joined the Company. In addition, from January 2011 until she joined the Company, she served as the President and Chief Executive Officer of Southern Company Services, which provides shared services for all of Southern Company’s subsidiaries, including information technology and cyber security efforts, human resources, procurement and supply chain management, marketing services, customer research and system transportation functions. From 2003 to December 2010, she was the President and Chief Executive Officer of Gulf Power Company, an electric utility serving the northwestern portion of Florida. Ms. Story is an independent board member of Raymond James Financial and serves on the boards of the Bipartisan Policy Center in Washington, DC and the Moffitt Cancer Center in Tampa, FL.
John R. Bigelow	60	Mr. Bigelow has been our Senior Vice President of Business Services since November 2011and became the Chair of the Board of Directors for American Water Works Service Company in January 2012. From 2007 until his new appointment in November 2011, Mr. Bigelow was President of New Jersey American Water (NJAWC). Mr. Bigelow joined American Water in 1994 and held a number of senior management positions during his tenure, including American Water’s Senior Vice President of Regulatory Programs and Enterprise Risk Management. From December 2003 to February 2006, Mr. Bigelow served as American Water’s Chief Financial Officer, Vice President and Treasurer of NJAWC, and Director, Vice President and Treasurer of New Jersey American Resources Co. Mr. Bigelow began his career with GPU System Companies, where he spent 18 years in various leadership roles in the finance area.
Sharon Cameron	58	Ms. Cameron has been President of American Water Enterprises, our Market-Based Operations, since September 2010. She also serves as President of American Water Resources, Inc., a business she has been leading since 2002. Prior to joining American Water, Ms. Cameron was Principal of Marketing Solutions, a marketing consulting firm she launched in 1998, and was a consultant to American Water on the Homeowner Services business. Previously, Ms. Cameron served as Vice President of Marketing and Sales at Comcast Corporation (New Jersey), Senior Marketing Manager at Menley & James Laboratories, and Marketing Manager at Campbell Soup Company.
Mark Chesla	55	Mr. Chesla has been our Vice President and Controller since November 2007. From 2001 to November 2007, Mr. Chesla was Vice President and Controller of Oglethorpe Power Corporation, in Atlanta, Georgia, where he served as that company’s chief accounting officer. In this capacity he was responsible for all aspects of the accounting, internal financial management, regulatory and SEC reporting functions. Mr. Chesla was Vice President, Administration/Controller of SouthStar Energy Services LLC, in Atlanta, Georgia, from 1998 to 2001. Earlier, he held management positions with several other companies, including Piedmont Natural Gas Co., Inc., Aegis Technologies, Inc., Deloitte & Touche LLP and Carolina Power & Light Company.

Name	Age	Office and Employment During Last Ten Years
Deborah Degillio	43	Ms. Degillio has been our Vice President and Treasurer since January 1, 2015. From 2013 until her new appointment in December 2014, Ms. Degillio served as VP of Finance of American Water Enterprises, our Market-Based Operations. Ms. Degillio joined American Water in 2007 as Director of Financial Planning and Analysis, supporting California, Arizona, New Mexico and Hawaii and was named Vice President of the Eastern Division Finance team in 2009. As Vice President of the Eastern Division, Ms. Degillio managed a team of over 30 professionals and was responsible for financial analysis and planning, as well as rates strategy and execution for nine states in American Water's regulated operations. Prior to joining American Water, Ms. Degillio held a number of roles at MCR Performance Solutions, a consulting firm in the energy sector, managing enterprise risk management and regulatory matters and providing financial management consulting for a number of large utilities. She began her career at CSC Planmetrics, a strategic consulting firm serving the utilities industry, where she supported electric and gas utilities through mergers and acquisitions, marketing plans and projects focused on process change.
Maureen Duffy	45	Ms. Duffy has been our Vice President of Corporate Communications and External Affairs since September 2011. From June 2011 to September 2011, Ms. Duffy served as the Executive Director of Corporate Communications and External Affairs. From September 2008 to June 2011, Ms. Duffy served as Director of External Communications, and from July 2006 until September 2008, she served as Director of Internal Communications. From November 1999 to July 2006, she held various positions with New Jersey American Water, which included Government Affairs/Media Specialist, Communications Manager and Director of Corporate Communications. Prior to joining American Water, Ms. Duffy reported and produced news for WNJN/WNET-TV.
Walter J. Lynch	52	Mr. Lynch has served as our President and Chief Operating Officer of Regulated Operations since March 2010, and President of Regulated Operations since July 2008. Prior to that date, he served as Executive Vice President, Eastern Division. He also served as President of New Jersey American Water, Long Island American Water and our Northeast Region. Mr. Lynch joined us in 2001 and served as President of our Products and Services Group, where he was responsible for overseeing our Market-Based Operations. Prior to this, he was President of the Southwest Region of American Water Services. Mr. Lynch has more than 20 years of experience in engineering, sales and marketing, operations and business development. Before joining us, he was involved with various start-up and growth organizations in the environmental industry. Mr. Lynch worked for Mobil Oil Corporation following his departure from the United States Army where he attained the rank of Captain. In addition, Mr. Lynch is on the Board of Directors of the National Association of Water Companies and serves on its Executive Committee.
Kathy L. Pape	62	Ms. Pape has been our Senior Vice President, Mid-Atlantic Division since November 2011, and President of Pennsylvania American Water since July 2007. From 1999 to 2007, Ms. Pape served as Senior Vice President, Treasurer and Rate Counsel for Aqua America, Inc. and was part of the team that grew the company from one state to fourteen. From 1994 to 1999, Ms. Pape was employed by us as Regional Counsel and Finance Manager, where her responsibilities included rates and regulatory affairs, finance, budgeting and customer service for 10 states. Prior to 1994, Ms. Pape was Vice President-Rates for General Waterworks Management and Service Co., Assistant Counsel to the Pennsylvania Public Utility Commission and Assistant Consumer Advocate for the Pennsylvania Office of Consumer Advocate. Ms. Pape chairs the Pennsylvania Business Council and its Policy Roundtable, is on the Board of the PA Chamber and numerous non-profit boards. Ms. Pape holds a bachelor of arts in political science from Edinboro University, a JD from the Dickinson School of Law and an LLM in Taxation from Villanova University School of Law.
Nick O. Rowe	57	Mr. Rowe has been the Senior Vice President of our Central Division since November 2011. From January 2009 until his new appointment in November 2011, Mr. Rowe was Senior Vice President of our Eastern Division, and from 2006 to January 2011, he was President of Kentucky American Water. From 2005 to 2006, he served as Vice President of Service Delivery Operations for the Southeast Region of American Water. From 2003 to 2005, he served as Vice President, Business Change for American Water in New Jersey, and from 1998 to 2003, Mr. Rowe was Vice President of Operations for Kentucky American Water. From 1987 to 1998, he served in various management positions with responsibility for the day-to-day operations of American Water facilities in several states including Virginia, West Virginia, and Pennsylvania. Mr. Rowe is involved with various regulatory agencies and civic and professional organizations. He is also a member of the American Water Works Association and the National Association of Water Companies.

Name	Age	Office and Employment During Last Ten Years
Michael Sgro	56	Mr. Sgro became our Senior Vice President, General Counsel and Secretary on February 18, 2015. Prior to that he had been serving as our Corporate Secretary and Interim General Counsel of American Water Works Company, Inc. and responsible for all legal affairs of the Company, including corporate governance and other corporate matters, SEC matters, ethics and compliance matters. Prior to his new position, he served as the Divisional General Counsel Northeast Division of American Water, directing all legal matters for American Water's Northeast Division, consisting of New Jersey American Water, New York American Water, and several non-regulated entities. He was also responsible for Government Affairs for New Jersey American Water. Prior to joining us in 1993, he was an Associate with Dechert LLP.
Mark S. Smith	55	Mr. Smith has been our Vice President and Chief Information Officer since September 2012. From 2008 to 2012, Mr. Smith served as our ITS Senior Director, Business Application Development & Project Management Office. Prior to joining American Water, Mr. Smith, held several roles with Siemens and Shared Medical Systems (pre-acquisition) over a course of 23 years, including Group Manager of Management Information Systems and Director of the Shared Services Office where he was responsible for enterprise and system level architecture definition, administration and implementation for internal development as well as custom commercial applications.
Mark F. Strauss	63	Mr. Strauss has been our Senior Vice President of Corporate Strategy and Business Development since September 2010. From December 2006, until his new appointment in September 2010, Mr. Strauss was President of American Water Enterprises, managing our Market-Based Operations. Previously, Mr. Strauss was President and Chief Executive Officer of a line of business that we sold in 2012, Applied Water Management Group, which provided customized water and wastewater management solutions to real estate developers, industrial clients and small to midsized communities nationwide. Mr. Strauss joined Applied Water Management Group in 1997 as Corporate Counsel and Secretary. He was promoted to Chief Operating Officer in 2002, a position he held until his appointment as Division President and Chief Executive Officer in 2003. Earlier, he served as Vice President and General Counsel of Vizzoni Brothers Construction, Inc. Mr. Strauss serves as a director of Skylands Community Bank. Mr. Strauss was also an associate at the law firms of Ozzard, Rizzolo, Klein, Mauro & Savo and Toolan, Romond, Abbot and Domenichetti.
Linda G. Sullivan	51	Ms. Sullivan has been our Senior Vice President and Chief Financial Officer since May 9, 2014. Prior to joining our company, she was employed for 22 years with Edison International companies. Beginning in July 2009, she served as the Senior Vice President and Chief Financial Officer ("CFO") of Southern California Edison Company, one of the nation's largest electric utilities and a subsidiary of Edison International, where she led all aspects of finance including strategy, planning, treasury, accounting, risk management and control functions, as well as operational services including supply chain functions, transportation services and facilities management. Prior to becoming CFO, Ms. Sullivan was Vice President and Controller of both Edison International and Southern California Edison for five years. She also held a variety of financial leadership roles at a number of Edison International's competitive businesses, including retail subsidiaries providing home security, energy efficiency and operations and maintenance service; and a research and development start-up focused on distributed generation, smart grid technologies solar rooftop installations and electric vehicle charging stations. From 1991 to 1996, she performed finance and accounting functions at the corporate level and within an operating business unit at the utility. Before starting her career at Edison International, Ms. Sullivan was senior auditor with Arthur Andersen, LLP for three years. She is a Certified Public Accountant (inactive) and Certified Management Accountant.
Edward Vallejo	55	Mr. Vallejo has been our Vice President of Financial Strategy, Planning and Decision Support since December 2014. Prior to his current role, he served as Vice President of Investor Relations. Prior to that he held various positions with increasing responsibility with us including chief financial officer of Thames Water Chile, Vice President of Mergers & Acquisitions and Treasurer. He began his career in the utilities sector in 1994 as an investment banker for PaineWebber.

Name	Age	Office and Employment During Last Ten Years
William M. Varley	57	Mr. Varley has been Senior Vice President, Northeast Division and President of New Jersey American Water since January 2014. He is also President of New York American Water (formerly named Long Island American Water), a position he has held since 2007. Mr. Varley previously served as Vice President and Manager of Long Island American Water, as well as Vice President of Business Development for New Jersey and New York. Prior to joining American Water in 2000, Mr. Varley was the District Manager for Layne Christensen Co., a large water supply contracting company, for 13 years. There he oversaw Layne's Long Island well-drilling operations. He also worked for large consulting engineering firms Camp Dresser & McKee and Hazen & Sawyer as resident and design engineer for large wastewater treatment plant upgrades. Mr. Varley holds a bachelors of science in civil engineering technology from Rochester Institute of Technology.
Loyd "Aldie" Warnock	55	Mr. Warnock has been our Senior Vice President of External Affairs, Communications and Public Policy since April 28, 2014. Prior to joining American Water, he was the Senior Vice President of External Affairs at Midwest Independent System Operator Inc., a nonprofit, self-governing organization, where he directed policy development for regulatory and legislative matters, oversaw state and federal regulatory and legislative activities, client relations, stakeholder support and corporate communications for this regional transmission organization. Other previous experience includes serving as Vice President of External Affairs for Allegheny Energy, Senior Vice President of Governmental and Regulatory Affairs at Mirant Corporation and Vice President of Regulatory Affairs at Reliant Energy. Mr. Warnock currently serves on the Board of Directors for the National Association of Water Companies and on its Executive Committee.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the captions entitled "Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Director Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item setting forth the security ownership of certain beneficial owners and management is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the caption entitled "Security Ownership of Principal Stockholders and Management" and the "Equity Compensation Plan" table appearing under the caption "Long-Term Equity Incentive Compensation."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the captions entitled "Certain Relationships and Related Transactions" and "Director Independence."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders, under the caption entitled "Independent Registered Public Accounting Fees and Services."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted since they are either not required or are not applicable as the information is otherwise included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 24th day of February, 2015.

AMERICAN WATER WORKS COMPANY, INC.

BY: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed on the 24th day of February, 2015 by the following persons in the capacities indicated.

/s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer and Director)

/s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

/s/ MARK CHESLA
Mark Chesla
Vice President, Controller

/s/ GEORGE MACKENZIE
George MacKenzie
(Director)

/s/ MARTHA CLARK GOSS
Martha Clark Goss
(Director)

/s/ JULIE A. DOBSON
Julie A. Dobson
(Director)

/s/ RICHARD R. GRIGG
Richard R. Grigg
(Director)

/s/ JULIA L. JOHNSON
Julia L. Johnson
(Director)

/s/ WILLIAM J. MARRAZZO
William J. Marrazzo
(Director)

/s/ PAUL J. EVANSON
Paul J. Evanson
(Director)

/s/ KARL F. KURZ
Karl F. Kurz
(Director)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-3028, filed November 6, 2008.)
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed January 5, 2010).
4.1	Indenture, dated as of October 22, 2007 between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to American Water Capital Corp.'s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc.'s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).
4.2	Indenture, dated as of November 26, 2008, between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 3, 2008).
4.3	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 3, 2010).
4.4	Officers' Certificate, dated December 15, 2010, establishing the 6.00% Senior Monthly Notes due 2040 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 15, 2010).
4.5	Officers' Certificate, dated December 17, 2012, establishing the 4.300% Senior Notes due 2042 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 17, 2012).
4.6	Officers' Certificate, dated November 20, 2013, establishing the 3.850% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed November 20, 2013).
4.7	Officers' Certificate, dated August 14, 2014, establishing the 3.400% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed August 14, 2014).
4.8	Officers' Certificate, dated August 14, 2014, providing for a further issuance of the 4.300% Senior Notes 2042 ((incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed August 14, 2014).
4.9	Note Purchase Agreement, as amended, dated December 21, 2006, between American Water Capital Corp. and the purchasers party thereto (incorporated by reference to Exhibit 4.2 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007) with respect to the 5.52% Series B Senior Notes due December 21, 2016, 5.62% Series C Senior Notes due December 21, 2018 and 5.77% Series D Senior Notes due December 21, 2021.
4.10	Note Purchase Agreement, as amended, dated March 29, 2007, between American Water Capital Corp. and the purchasers party thereto (incorporated by reference to Exhibit 4.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007) with respect to 5.62% Series E Senior Notes due March 29, 2019 and 5.77% Series F Senior Notes due March29, 2022.
4.11	Note Purchase Agreement, dated May 15, 2008, between American Water Capital Corp. and the purchasers party thereto (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed May 15, 2015, with respect to the 6.25% Series G Senior Notes due May 15, 2018 and the 6.55% Series H Senior Notes due May 15, 2023.
10.1	Credit Agreement, dated as of October 29, 2012, between American Water Capital Corp., each of the lenders party thereto, Wells Fargo Bank, National Association [written out for indenture & on credit agreement], as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent. (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed on May 7, 2013).
10.2	Amendment, dated as of September 6, 2013, to the Credit Agreement, dated as of October 29, 2012, between American Water Capital Corp., each of the lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent.
10.3	Lender Consent, dated as of September 9, 2013 to the Credit Agreement, dated as of October 29, 2012, as amended, between American Water Capital Corp., each of the lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent.
10.4	Support Agreement, dated June 22, 2000, together with First Amendment to Support Agreement, dated July 26, 2000, by and between American Water Works Company, Inc. and American Water Capital Corp. (incorporated by reference to Exhibit 10.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.5.1	Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 25, 2013 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.5.2	First Amendment to the Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 27, 2013 (incorporated by reference to Exhibit 10.2A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.6.1	Employment Agreement between Jeffry E. Sterba and American Water Works Company, Inc., dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed March 30, 2012).

Exhibit Number	Exhibit Description
10.6.2	Letter Agreement, dated December 12, 2013, between the Company and Jeffry E. Sterba, amending Mr. Sterba's Employment Letter Agreement dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 13, 2013).
10.7	Employment Agreement between Susan Story and American Water Works Company, Inc., dated February 20, 2013 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.8	Employment Agreement between Kellye L. Walker and American Water Works Company, Inc., dated December 21, 2009 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.9	Employment Letter Agreement between Linda G. Sullivan and American Water Works Company, Inc. dated March 10, 2014 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.10	Amended and Restated American Water Works Company, Inc. Executive Retirement Plan, dated as of March 1, 2007 (incorporated by reference to Exhibit 10.8 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.11	Amended and Restated American Water Works Company, Inc. Deferred Compensation Plan, dated as of January1, 2001 (incorporated by reference to Exhibit 10.9 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October11, 2007).
10.12.1	American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.15 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.12.2	Amendment 2010-1 to the American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan, dated as of December 10, 2010 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-K, File No. 001-34028, filed February 28, 2011).
10.13	American Water Works Company, Inc. Executive Severance Policy, dated as of December 16, 2008 (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed November 3, 2010).
10.14.1	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (incorporated by reference to Exhibit 10.22 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.14.2	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Nonqualified Stock Option Grant for ML1 – L5 Employees (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.14.3	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form A for ML1 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.14.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form B for ML1 – L5 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.14.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Nonqualified Stock Option Grant for ML1 – L5 Employees (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14.6	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form A for ML1 – L5 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14.7	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form B for ML1 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14.8	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Initial Restricted Stock Unit Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.9	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.10	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.11	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.3A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.12	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.13	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Restricted Stock Unit Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.14	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for Jeffry E. Sterba (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.15	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for Jeffry E. Sterba (incorporated by reference to Exhibit 10.8 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.16	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.17	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for

ML2 – L5 (incorporated by reference to Exhibit 10.4A to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2014)

Exhibit Number	Exhibit Description
10.14.18	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.19	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.5A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.20	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for Jeffry E. Sterba (incorporated by reference to Exhibit 10.9 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.21	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant FormB for Jeffry E. Sterba (incorporated by reference to Exhibit 10.10 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.22	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Performance Stock Unit Grant Form A for Susan N. Story (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.23	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Performance Stock Unit Grant Form B for Susan N. Story (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.24	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.9 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.25	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.26	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.6A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.27	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.8 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
10.14.28	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Nonqualified Stock Option Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 6, 2014)
10.14.29	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.10 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.30	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for ML2 – L5 (incorporated by reference to Exhibit 10.11 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.31	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.32	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.13 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.14.33	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 3, 2011).
10.14.34	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed August 2, 2012).
10.14.35	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Stock Unit Grant Form for Non-Employee Directors (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed August 7, 2013).
10.14.36	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Stock Unit Grant Form for Non-Employee Directors (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed August 6, 2014).
10.15	2011 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.16	2012 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.17	2013 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.18	2014 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2014)
*10.19	2015 American Water Annual Incentive Plan
10.20	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries, as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.37 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).

Exhibit Number	Exhibit Description
10.21	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.38 to American Water Works Company, Inc.’s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
*21.1	Subsidiaries of American Water Works Company, Inc.
*23.1	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section302 of the Sarbanes-Oxley Act.
*32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section906 of the Sarbanes-Oxley Act.
*101	The following financial statements from American Water Works Company, Inc.’s Annual Report on Form 10-K for the period ended December31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders’ Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith

Instruments defining the rights of holders of certain issues of long-term debt of the Company and certain of its consolidated subsidiaries have not been filed as exhibits to this report because the authorized principal amount of any one of such issues does not exceed 10% of the consolidated total assets of the Company’s consolidated total assets. The Company agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

Instruments defining the rights of holders of certain issues of long-term debt of the Company and certain of its consolidated subsidiaries have not been filed as exhibits to this report because the authorized principal amount of any one of such issues does not exceed 10% of the consolidated total assets of the Company’s consolidated total assets. The Company agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

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Section 2: EX-10.19 (EX-10.19)

Compensation Committee Meeting - 162(m) AIP Plan

Exhibit 10.19

AMERICAN WATER WORKS COMPANY, INC.

ANNUAL INCENTIVE PLAN

AMERICAN WATER WORKS COMPANY, INC.

ANNUAL INCENTIVE PLAN

1. Purpose

The purpose of the Plan is to give eligible full-time exempt employees an annual opportunity to earn a cash award that recognizes and rewards their contributions to the Company's success. To this end, the Plan provides a means of annually rewarding participants based on the performance of the Company, as a whole or through a subsidiary, and, where appropriate, on a Participant's personal performance. The Plan also provides the Committee with the ability to make Awards designated as "qualified performance-based compensation" under Code section 162(m). All capitalized terms are as defined in Section 2.

2. Definitions

(a) *"Award"* shall mean the actual amount of the incentive award earned by a Participant under the Plan for any Performance Period.

(b) *"Base Salary"* shall mean the amount of base salary earned by a Participant during the Performance Period. Base Salary does not include Awards under this Plan or any other short-term or long-term incentive plan; imputed income from such programs as group-term life insurance; or non-recurring earnings, such as moving expenses, but is based on salary earnings before reductions for such items as deferrals under Employer-sponsored deferred compensation plans, contributions under Code section 401(k) and contributions to flexible spending accounts under Code section 125.

(c) *"Board"* shall mean the Company's Board of Directors as constituted from time to time.

(d) *"Code"* shall mean the Internal Revenue Code of 1986, as amended or any successor statute thereto and the regulations promulgated thereunder.

(e) *"Committee"* shall mean the Compensation Committee of the Board. With respect to the administration of Awards designated as "qualified performance-based compensation," the Committee shall consist of two or more persons appointed by the Board, all of whom shall be "outside directors" as defined under Code section 162(m). With respect to Awards not designated as "qualified performance-based compensation," the Committee may delegate its responsibilities for administering the Plan to an award committee or an Executive Officer as it deems appropriate; provided that it may not delegate its responsibilities under the Plan relating to Executive Officers or its authority to amend or terminate the Plan. The CEO retains authority, and may delegate that authority, to administer awards to Participants other than Executive Officers.

(f) *"Company"* shall mean American Water Works Company, Inc. or any successor corporation.

(g) "*Effective Date*" shall mean____ __, 201_.

(h) *"Employee"* shall mean an employee of the Employer (including officers), but excluding any individual (i) employed in a casual or temporary capacity (i.e., those hired for a specific job of limited duration), (ii) characterized as "part-time" by the Employer, (iii) classified as a "non-exempt" employee eligible for overtime compensation under the Fair Labor Standards Act of 1938, (iv) whose terms of employment are governed by a collective bargaining agreement that does not provide for participation in this Plan, (v) characterized as a "leased employee" within the meaning of Code section 414, or (vi) classified by the Employer as a "contractor" or "consultant," no matter how characterized by the Internal Revenue Service, other governmental agency or a court. Any change of characterization or classification of an individual by any court, government agency (including, but not limited to, the Internal Revenue Service or U.S. Department of Labor), or arbitrator shall have no effect upon the characterization or classification of an individual as an Employee for purposes of this Plan, unless the Committee determines otherwise. *"Employer"* shall mean American Water Works Company, Inc. and each of its subsidiaries.

(i) *"Executive Officer"* shall mean the executive officers of the Company as defined in the Securities Exchange Act of 1934, as amended, and as determined by the Committee in its sole discretion.

(j) *"Participant"* for any Performance Period, shall mean an Employee designated by the Committee to participate in the Plan.

(k) *"Performance Goals"* for any Performance Period, shall mean: (i) For Target Awards designated as "qualified performance-based compensation" pursuant to Section 5, the performance goals of the Company, as specified by the Committee, based on one or more of the following objective criteria: [(A) diluted earnings per share, (B) environmental compliance, (C) safety performance, (D) service quality, (E) customer satisfaction], (F) stock price, (G) earnings per share, (H) price-earnings multiples, (I) net earnings, (J) operating earnings, (K) revenue, (L) number of days sales outstanding in accounts receivable, (M) productivity, (N) margin, (0) EBITDA (earnings before interest, taxes, depreciation and amortization), (P) net capital employed, (Q) return on assets, (R) stockholder return, (S) return on equity, (T) return on capital employed, (U) net income to shares of Company stock, (V) growth in assets, (X) unit volume, (Y) sales, (Z) cash flow, (AA) market share, (BB) relative performance to a comparison group designated by the Committee, and/or (CC) strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, customer growth, geographic business expansion goals, cost targets or goals relating to acquisitions or divestitures. Any criteria used may be measured, as applicable, (I) in absolute terms, (II) in relative terms (including but not limited to, the passage of time and/or against other companies or financial metrics), (III) on a per share and/or share per capita basis, (IV) against the performance of the Company as a whole or against particular entities, segments, operating units or products of the Company and /or (V) on a pre-tax or after-tax basis, or (ii) For Target Awards not designated as "qualified performance-based compensation" pursuant to Section 5, the performance goals may be based on one or more of the objective criteria set forth in clause (i) above and/or may take into account any other factors deemed appropriate by the Committee in its sole discretion.

(l) *"Performance Period"* shall mean the fiscal year of the Company or any other period designated by the Committee with respect to which an Award may be earned.

(m) *"Plan"* shall mean this American Water Works Company, Inc. Annual Incentive Plan, as from time to time amended and in effect.

(n) “*Target Award Percentage*" shall mean the applicable Target Award Percentage set forth on Schedule B; provided, that, if a Participant (other than Participants eligible to receive an Award designated as "qualified performance-based compensation") held more than one position during the Performance Period, then the Committee may designate different Target Award Percentages with respect to each position and the Award will be pro-rated to reflect (to the nearest bi-weekly increment) the period during which such Participant had each Target Award Percentage.

(o) *"Target Award"* for any Participant with respect to any Performance Period, shall mean the dollar amount based on the Participant's Target Award Percentage that the Participant would be eligible to earn as an Award for that Performance Period.

3. Eligibility

Subject to the limitations contained in this Section 3, all Employees of the Employer are eligible to participate in the Plan. The Committee shall designate which Employees shall participate in the Plan for each Performance Period. To be eligible to receive an Award with respect to any Performance Period, an Employee must be actively employed by the Employer on the day on which the Award payout for a Performance Period is made (except as provided in Section 8). Newly hired Employees or Employees promoted/transferred to an eligible/higher class shall be eligible to receive a prorated Award for a Performance Period, provided that their date of hire (or promotion/transfer) occurs on or before September 30, or such other date as the Committee may specify.

4. Administration

The administration of the Plan shall be consistent with the purpose and the terms of the Plan. The Plan shall be administered by the Committee. The Committee shall have full authority to establish the rules and regulations relating to the Plan, to interpret the Plan and those rules and regulations, to select Participants in the Plan, to determine each Participant's Target Award Percentage, to approve all of the Awards, to decide the facts in any case arising under the Plan and to make all other determinations, including factual determinations, and to take all other actions necessary or appropriate for the proper administration of the Plan, including the delegation of such authority or power, where appropriate; provided, however, that the Committee shall not be authorized to increase the amount of the Award payable to a Participant that would otherwise be payable pursuant to the terms of the Plan to the extent the Award is designated as "qualified performance-based compensation." All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

All Awards shall be made conditional upon the Participant's acknowledgement, in writing or by acceptance of the Award, that all decisions and determination of the Committee shall be final and binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under such Award. Awards need not be uniform as among Participants. The Committee's administration of the Plan, including all such rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Employer and all employees of the Employer, including, the Participants and their respective beneficiaries.

5. Determination of Awards

(a) *Setting Target Awards and Performance Goals.*

(i) To the extent Awards are designated as "qualified performance-based compensation," Performance Goals must be pre-established by the Committee. A Performance Goal is considered pre-established if it is established in writing not later than 90 days after the commencement of the period of service to which the Performance Goal relates. In no event will a Performance Goal be considered pre-established if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed. To the extent Awards are not designated as "qualified performance-based compensation," the Committee may establish Performance Goals and Target Award Percentages for Participants at such time or times as the Committee determines in its sole discretion. Subject to the requirements of this Section 5(a)(i), the Performance Goals established by the Committee may be (but need not be) different for each Performance Period and different Performance Goals may be applicable to different Participants.

(ii) The Committee shall determine and shall reflect in its minutes: (A) the Employees who shall be Participants during the Performance Period, (B) the Performance Goal or Goals for the Performance Period (and how they are weighted, if applicable) and (C) each Participant's Target Award Percentage, as well as the minimum and maximum amount that can be paid to such Participant. The Company shall notify each Participant of the Participant's Target Award Percentage and the applicable Performance Goals for the Performance Period. Unless the Committee determines otherwise for a Performance Period, the Target Award Percentage for each Participant with respect to a Performance Period shall be the percentage set forth on the attached Schedule B.

(b) *Earning An Award*. Generally, a Participant earns an Award for a Performance Period based on the level of achievement of the Performance Goals established by the Committee for that Performance Period. A Participant will receive no Award if the level of achievement of all Performance Goals is below the minimum required to earn an Award for the applicable Performance Period, as specified by the Committee at the time the Performance Goals are established.

(c) *Maximum Award Amount*. The maximum Award payable to any Participant for any fiscal year shall not exceed $3,000,000.

(d) *Special Rules for Awards Designated As Qualified Performance-Based Compensation*. To the extent Awards are designated as "qualified performance-based compensation", the Awards shall be based on Performance Goals for each Performance Period that shall satisfy the requirements for "qualified performance-based compensation" under Code section 162(m), including the requirement that the achievement of the Performance Goals be substantially uncertain at the time they are established and that the Performance Goals be objective and established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the Performance Goals have been met. To the extent that Awards designated as "qualified performance-based compensation" under Code section 162(m) are made, no such Award may be made as an alternative to any other award that is not designated as "qualified performance-based compensation" but instead must be separate and apart from all other awards made. To the extent an Award is designated as "qualified performance-based compensation," the Committee is authorized to reduce the Award payable to the applicable Participant for any Performance Period based upon its assessment of personal performance or other factors, but not to increase the Award beyond the amount that is payable as a result of the level of achievement of the Performance Goals for such Performance Period, as certified by the Committee. Any reduction of an Award payable to a Participant with respect to an Award designated as "qualified performance-based compensation" shall not result in an increase in the Award payable to any other Participant with respect to an Award designated as "qualified performance-based compensation."

6. Changes to the Target

Except with respect to Awards that are designated as "qualified performance-based compensation", the Committee may at any time prior to the final determination of Awards change the Target Award Percentage of any Participant or assign a different Target Award Percentage to a Participant to reflect any change in the Participant's responsibility level or position during the course of the Performance Period.

7. Payment of Awards

The Committee shall certify and announce the Awards that will be paid by the Employer to each Participant as soon as practicable following the final determination of the Company's financial results for the relevant Performance Period. Subject to the provisions of Section 8, payment of the Awards certified by the Committee shall normally be made, in a single lump sum cash payment as soon as practicable following the Committee certification, but in any event, such Bonus shall be paid on or after

January 1 of the year following the year in which the Performance Period ends, but no later than March 15 of the year following the year in which the Performance Period ends.

8. Limitations on Rights to Payment of Awards

(a) *Employment.* Unless the Committee determines otherwise, no Participant shall have any right to receive payment of an Award under the Plan for a Performance Period unless the Participant remains in the employ of the Employer through the date that Award is paid by the Company.

(b) *Accelerated Payment.* In no event will payment be made to a Participant with respect to an Award designated as "qualified performance-based compensation" or, unless the Committee determines otherwise, to any other Participant with respect to any other Award, prior to the end of the Performance Period to which it relates.

9. Amendment, Suspension or Termination of the Plan

The Committee may at any time amend (in whole or in part), suspend or terminate this Plan; provided, however, that the Committee shall not amend or modify the Plan without stockholder approval if such approval is required by Code section 162(m). No such amendment which adversely affects any Participant's rights to or interest in an Award earned prior to the date of the amendment shall be effective unless the Participant shall have agreed thereto. If Awards are intended as "qualified performance-based compensation" under Section 162(m) of the Code, the Plan must be reapproved by the Company's stockholders no later than the first stockholders meeting that occurs in the fifth year following the year in which the stockholders previously approved the material terms of the performance goals under the Plan, if Awards after such stockholders meeting are to be made as "qualified performance-based compensation" under Section 162(m) of the Code and if required by Section 162(m) of the Code.

10. Miscellaneous Provisions

(a) *No Employment Right.* This Plan is not a contract between the Employer and the Employees or the Participants. Neither the establishment of this Plan, nor any action taken hereunder, shall be construed as giving any Employee or any Participant any right to be retained in the employ of the Employer. The Company is under no obligation to continue the Plan. Nothing contained in the Plan shall limit or affect in any manner or degree the normal and usual powers of management, exercised by the officers and the Board or committees thereof, to change the duties or the character of employment of any employee of the Employer or to remove the individual from the employment of the Employer at any time, all of which rights and powers are expressly reserved.

Section 409A of the Code. The Plan is intended to comply with the short-term deferral rule set forth in the regulations under Section 409A of the Code in order to avoid application of Section 409A of the Code to the Plan. If and to the extent that any payment under this Plan is deemed to be deferred compensation subject to the requirements of Section 409A of the Code, this Plan shall be administered so that such payments are made in accordance with the requirements of Section 409A of the Code. If an Award is subject to Section 409A of the Code, (i) distributions shall only be made in a manner and upon an event permitted under Section 409A of the Code, (ii) payments to be made upon a termination of employment shall only be made upon a "separation from service" under Section 409A of the Code, and (iii) in no event shall a Participant, directly or indirectly, designate the calendar year in which a distribution is made except in accordance with Section 409A of the Code. Any Award under the Plan that is subject to Section 409A of the Code and that is to be distributed to a key employee (as defined below) upon separation from service shall be administered so that any distribution with respect to such Award shall be postponed for six months following the date of the Participant's separation from service, if required by Section 409A of the Code. If a distribution is delayed pursuant to Section 409A of the Code, the distribution shall be paid within 30 days after the end of the six-month period. If the Participant dies during such six-month period, any postponed amounts shall be paid within 90 days of the Participant's death. The determination of key employees, including the number and identity of persons considered key employees and the identification date, shall be made by the Committee or its delegate each year in accordance with Section 416(i) of the Code and the "specified employee" requirements of Section 409A of the Code. Notwithstanding anything in this Plan, each Participant shall be solely responsible for the tax consequences of Awards under this Plan, and in no event shall the Company have any responsibility or liability if any Award does not meet the applicable requirements of Section 409A of the Code. Although the Company intends to administer the Plan to prevent taxation under Section 409A of the Code, the Company does not represent or warrant that the Plan or any Award complies with any provision of federal, state, local or other tax law.

(b) *No Assignment.* A Participant's right and interest under the Plan may not be assigned or transferred and any attempted assignment or transfer shall be null and void and shall extinguish, in the Company's sole discretion, the Employer's obligation under the Plan to pay Awards with respect to the Participant.

(c) *Unfunded Plan.* The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund, or to make any other segregation of assets, to assure payment of Awards.

(d) *Company Policies.* As a condition of participation in the Plan, each Participant agrees to be subject to any compensation, clawback and recoupment policies that may be applicable to the Participant as an Employee of the Employer, as in effect from time to time and as approved by the Board or a duly authorized committee thereof, whether or not approved before or after the Effective Date.

(e) *Stockholder Approval.* Notwithstanding any provision of the Plan to the contrary, Awards designated as "qualified performance-based compensation," if made, will be made contingent upon, and subject to, stockholder approval of the Plan at the March 27, 2015 stockholders' meeting.

(f) *Withholding Taxes.* The Employer shall have the right to deduct from Awards paid any taxes or other amounts required by law to be withheld.

(g) *Compliance with 162(m).* It is the intent of the Company that the Plan and Awards under the Plan designated as "qualified performance-based compensation" comply with the applicable provisions of Code section 162(m). To the extent that any legal requirement of Code section 162(m) as set forth in the Plan ceases to be required under Code section 162(m), that Plan provision shall cease to apply. Further, with respect to Awards intended to qualify as "qualified performance-based compensation, terms used in the Plan shall be interpreted in a manner consistent with Section 162(m) of the Code and regulations thereunder (including Treasury Regulation Section 1.162-27).

(h) *Governing Law.* The validity, construction, interpretation and effect of the Plan shall exclusively be governed by and determined in accordance with the law of the State of Delaware.

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Section 3: EX-21.1 (EX-21.1)

Exhibit 21.1

American Water Works Company, Inc.'s Subsidiaries

As of February 20, 2015

Entity Name	Entity Type	Domestic Jurisdiction
AAET, INC.	Corporation	Delaware
American Industrial Water LLC	Limited Liability Company	Ohio
American Lake Water Company	Corporation	Illinois
American Water – Acciona Agua LLC	Limited Liability Company	Delaware
American Water (USA), Inc.	Corporation	Delaware
American Water Canada Corp.	Corporation	Ontario
American Water Capital Corp.	Corporation	Delaware
American Water Carbon Services Corp.	Corporation	Ontario
American Water Engineering, Inc.	Corporation	New Jersey
American Water Enterprises Holding, Inc.	Corporation	Delaware
American Water Enterprises, Inc.	Corporation	Delaware
American Water Operations and Maintenance, Inc.	Corporation	Texas
American Water Resources Holdings, Inc.	Corporation	Delaware
American Water Resources of Florida, Inc.	Corporation	Delaware
American Water Resources of Texas, Inc.	Corporation	Delaware
American Water Resources, LLC	Limited Liability Company	Virginia
American Water Services CDM, Inc.	Corporation	Washington
American Water Services Underground Infrastructure Corp.	Corporation	Ontario
American Water Services, LLC	Limited Liability Company	Delaware
American Water Works Company, Inc.	Corporation	Delaware
American Water Works Service Company, Inc.	Corporation	Delaware
AW Contract Services (Canada), Inc.	Corporation	Federally Chartered
AW Technologies Incorporated	Corporation	Delaware
Bluefield Valley Water Works Company	Corporation	Virginia
Braemar Acres Limited	Corporation	Ontario
California-American Water Company	Corporation	California
Dale Service Corporation	Corporation	Virginia
Edison Water Company	Corporation	New Jersey
EMC American Water Canada, Inc.	Corporation	Federally Chartered
EMC of St. Charles County, LLC	Limited Liability Company	Missouri
Environmental Management Corporation	Corporation	Missouri
E'Town Properties, Inc.	Corporation	Delaware

E’Town Services, LLC	Limited Liability Company	New Jersey
Hawaii-American Water Company	Corporation	Nevada
Illinois-American Water Company	Corporation	Illinois
Indiana-American Water Company, Inc.	Corporation	Indiana
Iowa-American Water Company	Corporation	Delaware
Kentucky-American Water Company	Corporation	Kentucky
Laurel Oak Properties Corporation	Corporation	Delaware
Liberty Water Company	Corporation	New Jersey
Long Island Water Corporation	Corporation	New York
Maryland-American Water Company	Corporation	Maryland
Michigan-American Water Company	Corporation	Michigan
Missouri-American Water Company	Corporation	Missouri
Mt. Ebo Sewage Works, Inc.	Corporation	New York
New Jersey-American Water Company, Inc.	Corporation	New Jersey
New York American Water Company, Inc.	Corporation	New York
OMI/Thames Water Stockton, Inc.	Corporation	Delaware
Pennsylvania-American Water Company	Corporation	Pennsylvania
Prism-Berlie (Windsor) Limited	Corporation	Ontario
Tennessee-American Water Company	Corporation	Tennessee
TWH LLC	Limited Liability Company	Delaware
TWNA, Inc.	Corporation	Delaware
Virginia-American Water Company	Corporation	Virginia
West Virginia-American Water Company	Corporation	West Virginia

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Section 4: EX-23.1 (EX-23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-168543 and 333-150381) and Form S-3 (Nos. 333-187120 and 333-181155) of American Water Works Company, Inc. of our report dated February 24, 2015 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2015

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Section 5: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Susan N. Story, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 24, 2015

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

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Section 6: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Linda G. Sullivan, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 24, 2015

By: /s/ LINDA G. SULLIVAN

Linda G. Sullivan
Senior Vice President and Chief Financial Officer

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Section 7: EX-32.1 (EX-32.1)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND
18 U.S.C. SECTION 1350,

I, Susan N. Story, President and Chief Executive Officer of American Water Works Company, Inc. (the “Company”), hereby certify that, based on my knowledge:

(1) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

February 24, 2015

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Section 8: EX-32.2 (EX-32.2)

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND
18 U.S.C. SECTION 1350,

I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer, of American Water Works Company, Inc. (the “Company”), hereby certify that, based on my knowledge:

(1) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

February 24, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ____________ to ____________

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes S No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No S

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 S 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 S No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 "small reporting company" in Rule 12(b)-2 of the Exchange Act.:

Large accelerated filer	S	Accelerated filer	☐
Non-accelerated filer	☐	Small reporting company	☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, $0.01 par value—$7,336,584,365 as of June 30, 2013.

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

Common Stock, $0.01 par value per share—178,722,663 shares, as of February 20, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Company's Proxy Statement for the Company's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

We have made statements under the captions "Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in other sections of this Annual Report on Form 10-K ("Form 10-K"), or incorporated certain statements by reference into this Form 10-K, that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 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," "forecast," "outlook," "future," "potential," "continue," "may," "can," "should" and "could" and similar expressions. Forward-looking statements may relate to, among other things, our future financial performance, including our operations and maintenance ("O&M") efficiency ratio, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our ability 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 of any outcomes, financial results or levels of performance and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and uncertainties, and new risks and uncertainties of which we are not currently aware or which we do not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of our expectations or assumptions prove incorrect, then our results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under the caption "Risk Factors" and the following factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness of regulatory commissions' actions concerning rates;
- 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 water quality and public utility regulations and policies;
- weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal and intercoastal flooding;
- the outcome of litigation and government action related to recent events in West Virginia;
- our ability to appropriately maintain current infrastructure 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;
- 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 acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of our operations;
- changes in general economic, business and financial market conditions;
- access to sufficient capital on satisfactory terms;
- 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;
- our ability to utilize our U.S. and state net operating loss carryforwards;
- migration of customers into or out of our service territories;

- difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;
- the incurrence of impairment charges;
- labor actions, including work stoppages;
- our ability to affect significant changes to our business processes and corresponding technology;
- ability to retain and attract qualified employees; and
- civil disturbance, or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make, speak only as of the date of this Form 10-K. Except as required by law, 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.

PART I

ITEM 1. BUSINESS

Our Company

American Water Works Company, Inc., (the “Company”), a Delaware corporation, is the most geographically diversified, as well as the largest publicly-traded, United States water and wastewater utility company, as measured by both operating revenue and population served. As a holding company, we conduct substantially all of our business operations through our subsidiaries. Our approximately 6,600 employees provide an estimated 14 million people with drinking water, wastewater and other water-related services in over 40 states and two Canadian provinces.

In 2013, our on-going operations generated $2,901.9 million in total operating revenue and $369.3 million in income from continuing operations. Included in the 2013 income from continuing operations was an after-tax charge of $24.8 million related to a loss on extinguishment of debt to effect a tender offer that we announced in September 2013. In 2012, our on-going operations generated $2,876.9 million in total operating revenue and $374.3 million in income from continuing operations.

We have two operating segments that are also the Company’s two reportable segments: the Regulated Businesses and the Market-Based Operations. For further details on our segments, see Note 19 of the Consolidated Financial Statements.

For 2013, our Regulated Businesses segment generated $2,593.9 million in operating revenue, which accounted for 89.4% of our total consolidated operating revenue. For the same period, our Market-Based Operations segment generated $325.5 million in operating revenue, which accounted for 11.2% of total consolidated operating revenue.

During 2011, we either consummated or announced the sale of assets or stock of certain of our regulated and market-based subsidiaries as outlined in “Our Regulated Businesses” and “Our Market-Based Operations” discussions below. As such, these subsidiaries have been presented as discontinued operations for all periods presented, and are not included in the discussions below unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

For additional financial information, please see the financial statements and related notes thereto appearing elsewhere in this Form 10-K.

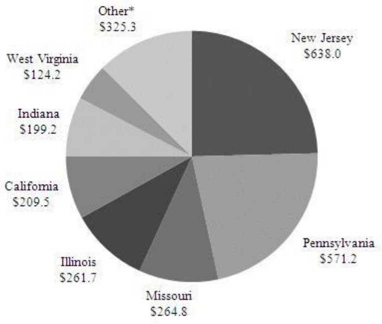
Regulated Businesses Overview

Our primary business involves the ownership of subsidiaries that provide water and wastewater utility services to residential, commercial, industrial and other customers, including sale for resale and public authority customers. We report the results of this business in our Regulated Businesses segment. Our subsidiaries that provide these services are generally subject to economic regulation by certain state commissions or other entities engaged in economic regulation, hereafter referred to as “PUCs,” in the states in which they operate. The federal government and the states also regulate environmental, health and safety, and water quality matters.

As noted above, for 2013, operating revenue for our Regulated Businesses segment was $2,593.9 million, accounting for 89.4% of total consolidated operating revenue for the same period. Regulated Businesses segment operating revenues were $2,564.4 million for 2012 and $2,368.9 million for 2011, accounting for 89.1% and 88.8%, respectively, of total operating revenues for the same periods.

The following charts set forth operating revenue for 2013 and customers as of December 31, 2013, for the states in which our Regulated Businesses provide services:

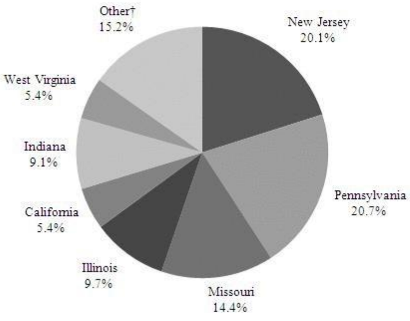
Regulated Businesses Operating Revenue (dollars in millions)



Total - $2,593.9

* Includes the combined results of our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia

Regulated Businesses Customers



Total - 3,219,499

† Includes the combined results of our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia

Market-Based Operations Overview

We also provide services that are not subject to economic regulation by state PUCs through our Market-Based Operations. Our Market-Based Operations include three lines of business:

- Contract Operations Group, which enters into contracts to operate and maintain water and wastewater facilities mainly for the United States military, municipalities, and the food and beverage industry;
- Homeowner Services Group, which provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes and clogged or blocked sewer pipes inside and outside their accommodations; and
- Terratec Environmental Ltd., which we refer to as Terratec, which primarily provides biosolids management, transport and disposal services to municipal and industrial customers.

For 2013, operating revenue for our Market-Based Operations was $325.5 million, accounting for 11.2% of total operating revenue for the same period. The Market-Based Operations' operating revenue was $330.3 million for 2012 and $327.8 million for 2011, accounting for 11.5% and 12.3%, respectively, of total operating revenues for the same periods.

Our Industry

Overview

The United States water and wastewater industry has two main sectors (i) utility ownership, which involves supplying water and wastewater services to consumers; and (ii) general services, which involves providing water and wastewater related services to water and wastewater utilities and other customers on a contract basis.

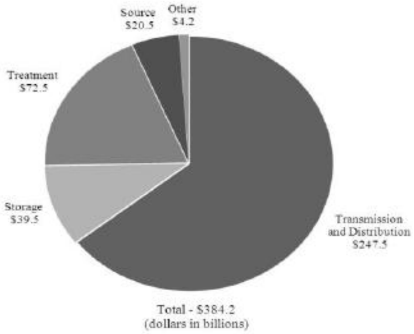
The utility sector includes investor-owned as well as municipal systems that are owned and operated by local governments or governmental subdivisions. The Environmental Protection Agency ("EPA") estimates that government-owned systems account for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems. Investor-owned water and wastewater systems, including a small number of private companies and developers, account for the remainder of the United States water and wastewater community water systems. Growth of service providers in the investor-owned regulated utility sector is achieved through organic growth within a franchise area, the provision of bulk water service to other community water systems and/or acquisitions, including small water and wastewater systems, typically serving fewer than 10,000 customers that are in close geographic proximity to already established regulated operations, which we herein refer to as "tuck-ins."

The utility sector is characterized by high barriers to entry, given the capital intensive nature of the industry. The aging water and wastewater infrastructure in the United States is in constant need of modernization and replacement. Increased regulations to improve water quality and the management of water and wastewater residuals' discharges, which began with passage of the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, have been among the primary drivers of the need for modernization. The EPA estimated that the nation's drinking water utilities need $384.2 billion in infrastructure investments for thousands of miles of pipe as well as thousands of treatment plants storage tanks, and other key assets between 2011 and 2030 to ensure the public health, security and economic well-being of our cities, towns and communities. Also, in 2007 the EPA estimated that approximately $390 billion of capital spending would be necessary over the next 20 years to replace aging infrastructure and ensure quality wastewater systems across the United States. In addition, the 2011 American Society of Civil Engineers' ("ASCE") report, *Failure to Act: The Economic Impact of Current Investment Trends in Water and Wastewater Treatment Infrastructure* estimated that as investment needs continue to escalate and current funding trends continue to fall short of the needs, it will likely result in unreliable water service and wastewater treatment. According to the report, this can result in water disruptions, impediments to emergency response, and damage to other types of infrastructure such as roads and bridges, as well as water shortages (from failing infrastructure and drought) that may result in unsanitary conditions and increase the likelihood of public health issues. In its most recent 2013 ASCE Report Card for America's Infrastructure it gave the water and wastewater infrastructure a grade of "D" due to the fact that much of the infrastructure is nearing the end of its useful life. The report concluded that there will be an investment gap between now and 2020 of $84 billion for drinking water and wastewater infrastructure.

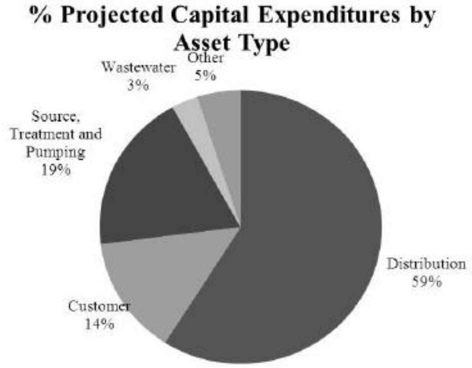
Note: Numbers may not total due to roundingSource: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment

Note: Numbers may not total due to roundingSource: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment

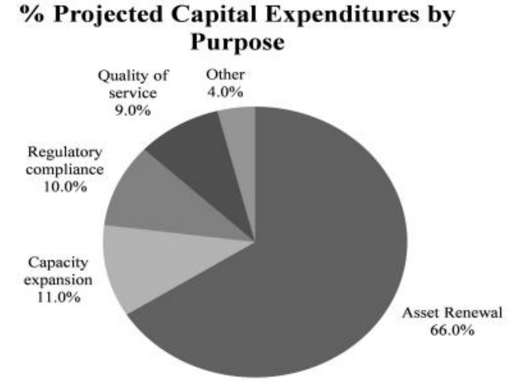
The following chart sets forth estimated capital expenditure needs from 2011 through 2030 for United States water systems:



For 2014 to 2018, we estimate that Company-funded capital investment will amount to approximately $5.8 billion. Of the $5.8 billion, $5.1 billion is anticipated to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period for acquisitions and for strategic capital of approximately $400 million and $300 million, respectively. Strategic investments could include opportunities in the unregulated shale arena or a major concession. Our total capital plan for 2014 is estimated to be $1.1 billion with approximately $900 million allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth. In addition to the $900 million in infrastructure upgrades, the capital investment plan for 2014 also includes $100 million for acquisitions and $100 million for strategic investment purposes. The charts below set forth our estimated percentage of projected capital expenditures over the period of 2014 to 2018 for upgrading our infrastructure and systems by asset type and purpose of investment, respectively:



% Projected Capital Expenditures by Asset Type



% Projected Capital Expenditures by Purpose

Investor-owned water and wastewater utilities generally require regulatory approval processes in order to do business, which may involve obtaining relevant operating approvals, including certificates of public convenience and necessity (or similar authorizations) from state PUCs. Investor-owned water and wastewater systems are generally subject to economic regulation by the state PUCs in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters for both investor-owned and government-owned water and wastewater utilities.

The general services sector includes engineering and consulting companies and numerous other fee-for-service businesses. These include building and operating water and wastewater utility systems, system repair services, lab services, sale of water infrastructure and distribution products (such as pipes) and other specialized services. The general services segment is characterized by aggressive competition and market-driven growth and profit margins.

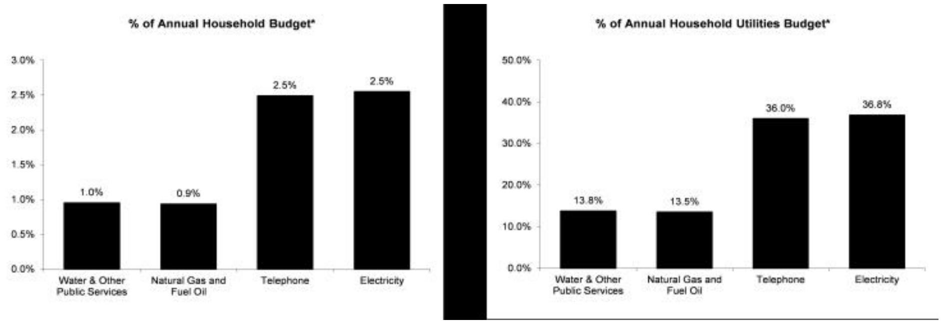
According to the EPA, the utility segment of the United States water and wastewater industry is highly fragmented, with approximately 54,000 community water systems and approximately 15,000 community wastewater facilities. Over half of the community water systems are very small, serving a population of 500 or less.

This large number of relatively small, fragmented water systems as well as fragmented wastewater facilities may result in inefficiencies in the marketplace, since such utilities may not have the operating expertise, financial and technological capability or economies of scale to provide services or raise capital as efficiently as larger utilities. Larger utilities that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to both water and wastewater systems. In addition, water and wastewater utilities with large customer bases, spread across broad geographic regions, may more easily absorb the impact of significant variations in precipitation and temperatures, such as droughts, excessive rain and cool temperatures in specific areas. Larger utilities generally are able to spread support services over a larger customer base, thereby reducing the costs to serve each customer. Since many administrative and support activities can be efficiently centralized to gain economies of scale, companies that participate in industry consolidation have the potential to improve operating efficiencies, lower costs per unit and improve service at the same time.

Water and Wastewater Rates

Investor-owned water and wastewater utilities generate operating revenue from customers based on rates that are generally established by state PUCs through a rate-setting process that may include public hearings, evidentiary hearings and the submission by the utility of evidence and testimony in support of the requested level of rates. In evaluating a rate case, state PUCs typically focus on six areas: (i) the amount and prudence of investment in facilities considered “used and useful” in providing public service; (ii) the operating and maintenance costs and taxes associated with providing the service (typically by making reference to a representative 12-month period of time, known as a test year); (iii) the appropriate rate of return; (iv) revenue produced by existing rates; (v) the tariff or rate design that allocates operating revenue requirements across the customer base; and (vi) the quality of service the utility provides, including issues raised by customers.

Water and wastewater rates in the United States are among the lowest for developed countries; and for most U.S. consumers, water and wastewater bills make up a relatively small percentage of household expenditures compared to other utility services. The following chart sets forth the relative cost of water and other public services, including trash and garbage collection and sewer maintenance, in the United States as a percentage of total household utility expenditures:



*Source: Bureau of Labor Statistics-Consumer Expenditures Survey, 2012 (assumes four person household)

Our Regulated Businesses

Our Regulated Businesses consist of locally managed utility subsidiaries that generally are subject to economic regulation by the states in which they operate. Our Regulated Businesses provide a high degree of financial stability because (i) high barriers to entry provide certain protections from competitive pressures; (ii) economic regulation promotes predictability in financial planning and long-term performance through the rate-setting process; and (iii) our large customer base.

During 2012, we continued to execute our plan for optimizing our Regulated Businesses' portfolio. In January 2012, we completed the sale of all of our stock in our water and wastewater operating companies located in Arizona and New Mexico. On May 1, 2012, we completed the sale of our eight regulated water systems and one wastewater system in Ohio. Ohio American Water served approximately 58,000 customers. Also, on May 1, 2012, we completed the purchase of seven regulated water systems in New York. This acquisition added approximately 50,000 customers to our New York regulated operations.

In May 2011, we completed the acquisition of 11 regulated water systems and 48 wastewater systems in Missouri and in June 2011, we completed the sale of the assets of our Texas regulated subsidiary. The Missouri acquisition added approximately 1,700 water customers and nearly 2,000 wastewater customers. The Texas assets served approximately 4,200 water and 1,100 wastewater customers in the greater Houston metropolitan area.

As noted above, as a result of these sales, these regulated subsidiaries are presented as discontinued operations for all periods presented. Therefore, the amounts, statistics and tables presented in this section refer only to on-going operations, unless otherwise noted.

The following table sets forth our Regulated Businesses operating revenue for 2013 and number of customers from continuing operations as well as an estimate of population served as of December 31, 2013:

	Operating Revenues (In millions)	% of Total	Number of Customers	% of Total	Estimated Population Served (In millions)	% of Total
New Jersey	$ 638.0	24.6%	647,168	20.1%	2.5	21.7%
Pennsylvania	571.2	22.0%	666,947	20.7%	2.1	18.3%
Missouri	264.8	10.2%	464,232	14.4%	1.5	13.1%
Illinois (a)	261.7	10.1%	311,464	9.7%	1.2	10.4%
California	209.5	8.1%	173,986	5.4%	0.6	5.2%
Indiana	199.2	7.7%	293,345	9.1%	1.2	10.4%
West Virginia (b)	124.2	4.8%	173,208	5.4%	0.6	5.2%
Subtotal (Top Seven States)	2,268.6	87.5%	2,730,350	84.8%	9.7	84.3%
Other (c)	325.3	12.5%	489,149	15.2%	1.8	15.7%
Total Regulated Businesses	$ 2,593.9	100.0%	3,219,499	100.0%	11.5	100.0%

(a) Includes Illinois-American Water Company, which we refer to as ILAWC and American Lake Water Company, also a regulated subsidiary in Illinois.
(b) West Virginia-American Water Company, which we refer to as WVAWC, and its subsidiary Bluefield Valley Water Works Company.
(c) Includes data from our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee, and Virginia.

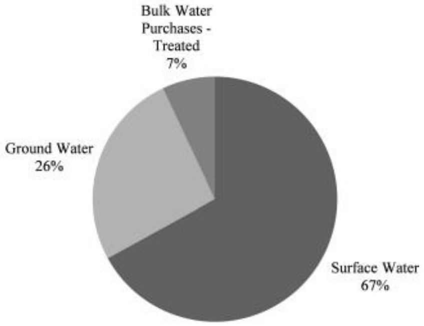
Approximately 87.5% of operating revenue from our Regulated Businesses in 2013 was generated from approximately 2.7 million customers in our seven largest states, as measured by operating revenues. In fiscal year 2013, no single customer accounted for more than 10% of our annual operating revenue.

Overview of Networks, Facilities and Water Supply

Our Regulated Businesses operate in approximately 1,500 communities in 16 states in the United States. Our primary operating assets include 87 dams along with approximately 80 surface water treatment plants, 500 groundwater treatment plants, 1,000 groundwater wells, 100 wastewater treatment facilities, 1,200 treated water storage facilities, 1,300 pumping stations, and 47,000 miles of mains and collection pipes. Our regulated utilities own substantially all of the assets used by our Regulated Businesses. We generally own the land and physical assets used to store, extract and treat source water. Typically, we do not own the water itself, which is held in public trust and is allocated to us through contracts and allocation rights granted by federal and state agencies or through the ownership of water rights pursuant to local law. Maintaining the reliability of our networks is a key activity of our Regulated Businesses. We have ongoing infrastructure renewal programs in all states in which our Regulated Businesses operate. These programs consist of both rehabilitation of existing mains and replacement of mains that have reached the end of their useful service lives.

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, governmental restrictions, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. We employ a variety of measures to ensure that we have adequate sources of water supply, both in the short-term and over the long-term. The geographic diversity of our service areas tends to mitigate some of the economic effect of weather extremes we might encounter in any particular service territory. In any given summer, some areas are likely to experience drier than average weather while other areas we serve will experience wetter than average weather.

As noted, our Regulated Businesses are dependent upon a defined source of water supply and obtain their water supply from surface water sources such as reservoirs, lakes, rivers and streams. In addition, we also obtain water from ground water sources, such as wells, and purchase water from other water suppliers. The following chart sets forth the sources of water supply for our Regulated Businesses for 2013 by volume:



In our long-term planning, we evaluate quality, quantity, growth needs and alternate sources of water supply as well as transmission and distribution capacity. Sources of supply are seasonal in nature and weather conditions can have a pronounced effect on supply. In order to ensure that we have adequate sources of water supply, we use planning processes and maintain contingency plans to minimize the potential impact on service through a wide range of weather fluctuations. In connection with supply planning for most surface or groundwater sources, we employ models to determine safe yields under different rainfall and drought conditions.

Surface and groundwater levels are routinely monitored so that supply capacity deficits may, to the extent possible, be predicted and mitigated through demand management and additional supply development.

The percentage of finished water supply by source type for our top seven states by Regulated Businesses revenues for 2013 is as follows:

	Ground water	Surface water	Purchased Water
New Jersey	21%	73%	6%
Pennsylvania	7%	92%	1%
Missouri (a)	17%	82%	1%
Illinois	35%	54%	11%
California (b)	67%	—	33%
Indiana	55%	44%	1%
West Virginia	—	99%	1%

(a) There are limitations in our Joplin service area where the projected source of water supply capacity is unable to meet projected peak demands under certain drought conditions. To manage this issue on the demand side, the water use of a large industrial customer can be restricted under an interruptible tariff. Additional wells have been and will be developed to address short-term supply deficiencies. Missouri-American Water Company is working with a consortium of agencies to determine a long-term supply solution for the Joplin, Missouri region.

(b) In Monterey, in order to augment our sources of water supply, we have implemented conservation rates and other programs to address demand and are utilizing aquifer storage and recovery facilities to store winter water for summer use. Additionally, in other areas, we are making arrangements to extend or expand our purchase of water from neighboring water providers.

The level of treatment we apply to the water varies significantly depending upon the quality of the water source and customer stipulations. Surface water sources, such as rivers, typically require significant treatment, while some groundwater sources, such as aquifers, require chemical treatment only. In addition, a small amount of treated water is purchased from neighboring water purveyors. Treated water is transported through our transmission and distribution network, which includes underground pipes, above ground storage facilities and numerous pumping facilities with the ultimate distribution of the treated water to the customers' premises.

We also have installed production meters to measure the water that we deliver to our distribution network. We employ a variety of methods of customer meter reading to monitor consumption; ranging from meters with mechanical registers where consumption is manually recorded by meter readers to meters with electronic registers capable of transmitting consumption data to proximity devices (touch read) or via radio frequency to mobile or fixed network data collectors. The majority of new meters are able to support future advances in electronic meter reading.

Wastewater services involve the collection of wastewater from customers' premises through sewer lines. The wastewater is then transported through a sewer network to a treatment facility, where it is treated to meet required effluent standards. The treated wastewater is finally returned to the environment as effluent, and the solid waste by-product of the treatment process is disposed of in accordance with applicable standards and regulations.

Customers

We have a large and geographically diverse customer base in our Regulated Businesses. An active customer is defined as a party with an active agreement to receive a specific service from a connection to our water or wastewater system as of the last business day of each monthly reporting period. Also, as in the case of apartment complexes, businesses and many homes, multiple individuals may be served by a single contract.

Residential customers make up the majority of our customer base in all of the states in which we operate. In 2013, residential customers accounted for 91.0% of the customers and 59.3% of the operating revenue of our Regulated Businesses. We also serve commercial customers, such as shops and businesses; industrial customers, such as large-scale manufacturing and production operations; and public authorities, such as government buildings and other public sector facilities, including schools. We also supply water to public fire hydrants for firefighting purposes, to private fire customers for use in fire suppression systems in office buildings and other facilities as well as providing bulk water supplies to other water utilities for distribution to their own customers.

The following table sets forth the number of water and wastewater customers (by customer class) for our Regulated Businesses as of December 31, 2013, 2012, and 2011:

	December 31,					
	2013		2012		2011	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Residential	2,813,601	117,584	2,783,354	95,576	2,730,524	95,092
Commercial	219,510	6,287	218,988	5,477	216,415	5,462
Industrial	3,822	16	3,894	12	3,885	13
Public & other	58,420	259	50,702	223	49,705	209
Total	3,095,353	124,146	3,056,938	101,288	3,000,529	100,776

The following table sets forth water services operating revenues by customer class and wastewater services operating revenues, excluding other revenues, for our Regulated Businesses for 2013, 2012, and 2011:

	For the years ended December 31,					
	2013		2012		2011	
	(In millions)					
Water service						
Residential	$ 1,473.1	57.8%	$ 1,468.6	58.2%	$ 1,339.4	58.1%
Commercial	529.8	20.8%	518.3	20.6%	474.2	20.5%
Industrial	123.3	4.8%	139.1	5.5%	114.5	5.0%
Public and other	338.8	13.3%	317.7	12.6%	302.3	13.1%
Total water services	$ 2,465.0	96.7%	$ 2,443.7	96.9%	$ 2,230.4	96.7%
Wastewater services	82.8	3.3%	78.2	3.1%	76.3	3.3%
Total	$ 2,547.8	100.0%	$ 2,521.9	100.0%	$ 2,306.7	100.0%

The following table sets forth billed sales volumes by customer class for our Regulated Businesses for 2013, 2012 and 2011:

	For the years ended December 31,					
	2013		2012		2011	
	(gallons in millions)					
Billed water sales volumes						
Residential	180,976	51.8%	188,927	51.5%	180,916	51.2%
Commercial	80,392	23.0%	84,226	23.0%	81,455	23.0%
Industrial	37,107	10.6%	39,429	10.7%	39,295	11.1%
Public and other	51,009	14.6%	54,202	14.8%	52,069	14.7%
Total	349,484	100.0%	366,784	100.0%	353,735	100.0%

The vast majority of our regulated water customers are metered, which allows us to measure and bill for our customers' water consumption, typically on a monthly basis. Our wastewater customers are billed either on a fixed charge basis or based on their water consumption.

Customer usage of water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for lawn irrigation and other outdoor uses. Summer weather that is cooler and wetter than average generally serves to suppress customer water demand and can reduce water operating revenues and operating income. Summer weather that is hotter and drier than average generally increases operating revenues and operating income. However, when weather conditions are extremely dry, and even if our water supplies are sufficient to serve our customers, our systems may be affected by drought-related warnings and/or water usage restrictions imposed by governmental agencies, thereby reducing customer usage and operating revenues. These restrictions may be imposed at a regional or state level and may affect our service areas, regardless of our readiness to meet unrestricted customer demands. Other factors affecting our customers' usage of water include conservation initiatives, such as the use of more efficient household fixtures and appliances among residential consumers; declining household sizes in the United States; and changes in the economy and credit markets which could have significant impacts on our industrial and commercial customers' operational and financial performance.

Customer growth in our Regulated Businesses is driven by (i) organic population growth in our authorized service areas; (ii) adding new customers to our regulated customer base by acquiring water and/or wastewater utility systems; and (iii) the sale of water to other community water systems. Generally, we add customers through tuck-ins of small water and/or wastewater systems, typically serving fewer than 10,000 customers, in close geographic proximity to areas where we operate our Regulated Businesses. We will continue to acquire water and wastewater utilities through tuck-ins. The proximity of tuck-in opportunities to our regulated footprint allows us to integrate and manage the acquired systems and operations using our existing management and to achieve efficiencies. Historically, pursuing tuck-ins has been a fundamental part of our growth strategy. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and, if appropriate, certain markets in the United States where we do not operate our Regulated Businesses. We will also selectively seek larger acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing and new markets. Before entering new regulated markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate rate of return on our investment while maintaining our high standards for quality, reliability and compliance with environmental, health and safety and water quality standards.

Supplies

Our water and wastewater operations require an uninterrupted supply of chemicals, energy and fuel, as well as maintenance material and other critical inputs. Many of these inputs are subject to short-term price volatility. Short-term price volatility is partially mitigated through existing procurement contracts, current supplier continuity plans, the regulatory rate setting process and rate mechanisms.

Because of our geographic diversity, we maintain relationships with many chemical, equipment and service suppliers in the marketplace, and we do not rely on any single entity for a significant amount of our supplies. We also employ a strategic sourcing process intended to ensure reliability in supply and long-term cost effectiveness. As a result of this process and our strong relationships with suppliers, we are able to mitigate interruptions in the delivery of the products and services that are critical to our operations.

We typically have a combination of standby power generation or dual electric service feeds at key facilities, multiple water production facilities, emergency interconnections with adjacent water systems and finished water storage that keep our operations running in the event of a temporary loss of our primary energy supplies.

Regulation

Economic Regulation

Our Regulated Businesses are generally subject to extensive economic regulation by their respective PUCs. The term “economic regulation” is intended to indicate that these state PUCs regulate the economic aspects of service to the public but do not generally establish water quality standards, which are typically set by the EPA and/or state environmental authorities. State PUCs have broad authority to regulate many of the economic and service aspects of the utilities. For example, state PUCs often issue certificates of public convenience and necessity (or similar authorizations) that may be required for a company to provide service in specific areas. They also approve the rates and conditions under which service is provided and have extensive authority to establish rules and regulations under which the utilities operate. Specific authority might differ from state to state, but in most states PUCs approve rates, accounting treatments, long-term financing programs, significant capital expenditures and plant additions, transactions and relationships between the regulated subsidiary and affiliated entities, reorganizations, mergers and acquisitions. In many instances, approvals are required prior to the transaction. Regulatory policies not only vary from state to state, but can change over time as well. These policies will affect the timing as well as the extent of recovery of expenses and the realized return on invested capital. Our results of operations are significantly affected by rates authorized by the PUCs in the states in which we operate, and we are subject to risks and uncertainties associated with rate case delays or inadequate rate recovery.

Economic regulation of utilities involves many competing, and occasionally conflicting, public interests and policy goals. The primary responsibility of PUCs is to promote the overall public interest by balancing the interests of customers and the utility. Although the specific approach to economic regulation varies, certain general principles are consistent across the states in which our regulated subsidiaries operate. For example, based on certain legal and regulatory principles, utilities are entitled to recover, through rates charged to customers, prudent and reasonable operating costs as well as an opportunity to earn an appropriate return on and recovery of prudent, used and useful capital investment necessary to provide service to customers. PUCs will also generally accord a utility the right to serve specific areas and will also provide investor-owned utilities with limited protection from competition because the requirement of an investor-owned utility to operate pursuant to a certificate of public convenience and necessity (or similar authorizations) typically prevents other investor-owned utilities from competing with it in the authorized area. In return, the utility undertakes the obligation to provide reliable service without unreasonable discrimination to all customers within the authorized area.

Our operating revenue is typically determined by reference to a volumetric charge based on consumption and a base fee component set by a tariff approved by the PUC. The process to obtain approval for a change in rates generally involves filing a petition or "rate case" by the utility with the PUC on a periodic basis as determined by the need to recover capital expenditures, a reduction in operating revenues due to reduced consumption, increased operating costs or the utility determines that its current authorized return is not sufficient, given current market conditions, to provide a reasonable return on investment. A PUC may also initiate a rate proceeding or investigation if it believes a utility may be earning in excess of its authorized rate of return or other issues exist, which justify a review. PUCs may also impose other conditions on the content and timing of filings designed to affect rates. Rate cases often involve a lengthy administrative process that can be costly. The utility, the state PUC staff, consumer advocates, and other customers and interveners, who may participate in the process, generally submit testimony and supporting financial data from a twelve month period of time, known as the "test year." State statutes and PUC rules and precedent usually determine whether the test year should be based on a historical period, a historical period adjusted for certain "known and measurable" changes or forecasted data. The majority of our states use a forecasted test year. The evidence is presented in public hearings held in connection with the rate case, which are economic and service quality fact-finding in nature, and are typically conducted in a trial-like setting before the PUC or an administrative law judge. During the process, the utility is required to provide PUC staff and interveners with all relevant information they may request concerning the utility's operations, costs and investments. The decision of the PUC should be based on the evidence presented at the hearing.

State PUCs differ with regard to the types of expenses and investments that may be recovered in rates as well as with regard to the transparency of their rate-making processes and how they reach their final rate determinations. However, in evaluating a rate case, state PUCs typically focus on a number of areas, including, the amount and prudence of investment in facilities; operating and maintenance expenses and taxes; the appropriate cost of capital and equity return; revenues or consumption at current and expected levels; allocation of the revenue requirements among customer classes; service quality and issues raised by customers.

Failure of the PUCs to recognize reasonable and prudent operating and capital costs can result in the inability of the utility to earn the allowed return and can have a significant impact on the operations and earnings of our Regulated Businesses. Rate cases and other rate-related proceedings can take several months to over a year to complete. Therefore, there is frequently a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating cost increase and when those costs are reflected in rates. For instance, an unexpected increase in chemical costs or new capital investment that is not reflected in the most recently completed rate case will generally not begin to be recovered by the regulated subsidiary until the effective date of the subsequent rate case. Our rate case management program is guided by the goals of obtaining efficient recovery of costs of capital, recognition of declining consumption and appropriate recovery of utility operating and maintenance costs, including costs incurred for compliance with environmental regulations. The management team at each of our regulated subsidiaries anticipates the time required for the regulatory process and files rate cases with the goal of obtaining rates that reflect as closely as possible the cost of providing service at the time the rates become effective. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on and of invested capital that are permitted by the PUC.

Our regulated subsidiaries work with legislatures and PUCs to mitigate the adverse impact of regulatory lag through the adoption of positive regulatory policies. These policies include, for example, infrastructure replacement surcharges that allow rates to change outside the context of a general rate proceeding to reflect, on a more timely basis, investments to replace infrastructure necessary to sustain high quality, reliable service. Currently, Pennsylvania, Illinois, Missouri, Indiana, New York, New Jersey and Tennessee allow the use of infrastructure surcharges.

Forward-looking test year mechanisms allow us to earn, on a more current basis, our current or projected usage and costs and a rate of return on our current or projected invested capital. Some states have permitted use of a fully forecasted test year instead of historical data to set rates. Examples of these states include: Illinois, Kentucky, New York, Tennessee, California, Pennsylvania and Indiana. In all states in which we operate on a regulated basis, PUCs have allowed utilities to update historical data for certain "known and measurable" changes that occur for some limited period of time subsequent to the historical test year. This allows utilities to take into account more current costs or capital investments in the rate-setting process. The extent to which historical data can be updated will generally vary from state to state.

Surcharge mechanisms are also available in a number of states to reflect, outside of a general rate proceeding, changes in major operating expenses which may be beyond the utility's control. For example, New Jersey, California, Virginia and Illinois have allowed surcharges for purchased water costs. California has allowed surcharges for power and certain other costs, and New York has allowed annual reconciliations for revenues and expenses such as power, fuel, chemicals and property taxes.

Certain states have approved consolidated rates or single-tariff pricing policies. Consolidated rates or single-tariff pricing is the use of a unified rate structure for multiple water systems that are owned and operated by a single utility, but may or may not be contiguous or physically interconnected. The single-tariff pricing structure may be used fully or partially in a state, based on costs that are determined on a state-wide or intra-state regional basis, thereby moderating the impact of periodic fluctuations in local costs while lowering administrative costs for us and our customers. For states that do not employ single-tariffs, we may have multiple general rate cases filed at any given point in time. Examples of states that have adopted a full or partial single-tariff pricing policy include:

Pennsylvania, New Jersey, Missouri, West Virginia, Kentucky, Indiana, Illinois and Iowa. Therefore, of our seven largest states, six have some form of single-tariff pricing. Pennsylvania also permits a blending of water and wastewater rate structures, which results in single tariff pricing among water and wastewater systems.

Another mechanism to address issues of regulatory lag is the potential ability, in certain circumstances, to recover in rates a return on utility plant before it is in service, instead of capitalizing an allowance for funds used during construction. Examples of states that have allowed such recovery include Pennsylvania, Kentucky, Virginia, Illinois and California. In addition, some states, such as Indiana, allow the utility to seek pre-approval of certain capital projects and associated costs. In this pre-approval process, the PUC assesses the prudency of such projects.

In some states, the PUC has implemented mechanisms to enhance utility revenue stability in light of conservation initiatives, decreasing per capita consumption or other factors. Sometimes referred to as "decoupling," these mechanisms, to some extent, separate recoverable revenues from volumes of water sold. For example, the state of California has decoupled revenues from water sold to help achieve the state initiative to reduce water usage by 20% by 2020. This progressive regulation enables utilities to encourage water efficiency, as revenues are not tied to sales. Similarly, New York has implemented a surcharge or credit based on the difference between actual net revenues and the revenues allowed in the most recent rate order.

The Company pursues these positive regulatory policies as part of our rate and revenue management program to enhance our ability to provide high quality, sustainable, cost effective service to customers, to facilitate efficient recovery of our costs and investments, and to ensure positive short-term liquidity and long-term profitability. The ability of the Company to seek regulatory treatment as described above does not guarantee that the state PUCs will accept the Company's proposal in the context of a particular rate case, and these policies will reduce, but not eliminate, regulatory lag associated with traditional rate making processes. However, the Company strives to use these and other regulatory policies to address issues of regulatory lag wherever appropriate. It is also our strategy to expand their use in areas where they may not currently apply.

Environmental, Health and Safety and Water Quality Regulation

Our water and wastewater operations are subject to extensive United States federal, state and local laws and regulations, and in the case of our Canadian operations, Canadian laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat, discharge and dispose of wastewater. We are also subject to certain regulations regarding fire protection services in the areas we serve. These regulations include the Safe Drinking Water Act, the Clean Water Act and other federal, state, local and Canadian laws and regulations governing the provision of water and wastewater services, particularly with respect to the quality of water we distribute. We also are subject to various federal, state, local and Canadian laws and regulations governing the storage of hazardous materials, the management and disposal of hazardous and solid wastes, discharges to air and water, the cleanup of contaminated sites, dam safety and other matters relating to the protection of the environment and health and safety. State PUCs also set conditions and standards for the water and wastewater services we deliver.

Environmental, health and safety and water quality regulations are complex and change frequently. The overall trend has been that they have become more stringent over time. As newer or stricter standards are introduced, our capital and operating costs could increase. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation to which our Regulated Businesses are subject. In the past, we have generally been able to recover costs associated with compliance related to environmental, health and safety standards, but this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery.

We maintain an appropriate environmental policy including responsible business practices, compliance with environmental laws and regulations, effective use of natural resources, and stewardship of biodiversity. We believe that our operations are materially in compliance with, and in many cases surpass, minimum standards required by applicable environmental laws and regulations. Water samples from across our water systems are analyzed on a regular basis for material compliance with regulatory requirements. Across the Company, we conduct over one million water quality tests each year at our laboratory facilities and plant operations, including continuous on-line instrumentations such as monitoring turbidity levels, disinfectant residuals and adjustments to chemical treatment based on changes in incoming water. For 2013, we achieved a score of greater than 99% for drinking water compliance and according to the EPA statistics, American Water's performance has been far better than the industry average over the last several years. In fact, in 2013, American Water was 20 times better than the industry average for compliance with drinking water quality standards (Maximum Contaminant Levels) and 150 times better for compliance with drinking water monitoring and reporting requirements.

We participate in the Partnership for Safe Water, the United States EPA's voluntary program to meet more stringent goals for reducing microbial contaminants. With 68 of our 82 surface water plants receiving the program's "Director" award, we account for approximately one-third of the plants receiving such awards nationwide. In addition, 63 American Water plants have received the "Five-Year Phase III" award, while 60 have been awarded the "Ten-Year Phase III" award. Additionally, three plants received the inaugural "Fifteen-Year Phase III" award in 2013.

Safe Drinking Water Act

The Federal Safe Drinking Water Act and regulations promulgated thereunder establish national quality standards for drinking water. The EPA has issued rules governing the levels of numerous naturally occurring and man-made chemical and microbial contaminants and radionuclides allowable in drinking water and continues to propose new rules. These rules also prescribe testing requirements for detecting regulated contaminants, the treatment systems which may be used for removing those contaminants and other requirements. Federal and state water quality requirements have become increasingly stringent, including increased water testing requirements, to reflect public health concerns. To date, the EPA has set standards for approximately 90 contaminants and indicators for drinking water. Further, certain of our water systems are in the process of monitoring for 28 additional contaminants that are not currently regulated to help the EPA determine if any of them occur at high enough levels to warrant being regulated. There are thousands of other chemical compounds that are not regulated, many of which are lacking a testing methodology, occurrence data, health effects information and/or treatment technology.

To effect the removal or inactivation of microbial organisms, the EPA has promulgated various rules to improve the disinfection and filtration of drinking water and to reduce consumers' exposure to disinfectants and byproducts of the disinfection process. In January 2006, the EPA promulgated the Long-term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproduct Rule. In October 2006, the EPA finalized the Ground Water Rule, applicable to water systems providing water from underground sources. The EPA also revised the monitoring and reporting requirements of the existing Lead and Copper Rule in 2007 and Congress enacted the Reduction of Lead in Drinking Water Act on January 4, 2011 regarding the use and introduction into commerce of lead pipes, plumbing fittings or fixtures, solder and flux. In 2012, the EPA finalized revisions to the Total Coliform Rule that were part of the mandate of a Federal Advisory Committee appointed to negotiate the changes. Most of the anticipated changes to the rule will not be effective until 2016. The EPA is actively considering regulations for a number of contaminants, including hexavalent chromium, fluoride, nitrosamines, perchlorate, some pharmaceuticals and certain volatile organic compounds, but we do not anticipate that any of these regulations will require implementation in 2014.

Although it is difficult to project the ultimate costs of complying with the above or other pending or future requirements, we do not expect current requirements under the Safe Drinking Water Act to have a material impact on our operations or financial condition. In addition, capital expenditures and operating costs to comply with environmental mandates traditionally have been recognized by PUCs as appropriate for inclusion in establishing rates. As a result, we expect to fully recover the operating and capital costs resulting from these pending or future requirements.

Clean Water Act

The Federal Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and groundwater. In addition to requirements applicable to our wastewater collection systems, our operations require discharge permits under the National Pollutant Discharge Elimination System ("NPDES") permit program established under the Clean Water Act. Pursuant to the NPDES program, the EPA or implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. We believe that we maintain the necessary permits and approvals for the discharges from our water and wastewater facilities. From time to time, discharge violations occur at our facilities, some of which result in fines. We do not expect any such violations or fines to have a material impact on our results of operations or financial condition.

Other Environmental, Health and Safety and Water Quality Matters

Our operations also involve the use, storage and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals which generate wastes that require proper handling and disposal under applicable environmental requirements. We also could incur remedial costs in connection with any contamination relating to our operations or facilities or our off-site disposal of wastes. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the United States Occupational Safety and Health Act and are subject to inspections thereunder. For further information, see "Business—Research and Development."

Certain of our subsidiaries are involved in pending legal proceedings relating to environmental matters. These proceedings are described further in the section entitled "Item 3—Legal Proceedings."

Competition

In our Regulated Businesses, we generally do not face direct competition in providing services in our existing markets because (i) we operate within those markets pursuant to certificates of public convenience and necessity (or similar authorizations) issued by state PUCs; and (ii) the high cost of constructing a new water and wastewater system in an existing market creates a barrier to market entry. Our Regulated Businesses do face competition from governmental agencies, other investor-owned utilities, large industrial customers with the ability to provide their own water supply/treatment process and strategic buyers that are entering new markets and/or making strategic acquisitions. Our largest investor-owned competitors, when pursuing acquisitions, based on a comparison of operating revenues and population served, are Aqua America Inc., United Water (owned by Suez Environnement), American States Water Co. and California Water Services Group.

Condemnation

The potential exists that all or portions of our subsidiaries' utility assets could be acquired by municipalities or other local government entities through one or more of the following methods:

- eminent domain (also known as condemnation);
- the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity was granted; and
- the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its certificate.

The acquisition consideration related to such a transaction initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular franchise or charter. We believe our operating subsidiaries would be entitled to fair market value for any assets required to be sold, and we are of the opinion that fair market value would be in excess of the book value for such assets.

We are periodically subject to condemnation proceedings in the ordinary course of business. For example, condemnation threats have been made over the last several years with respect to the following systems:

- Chicago, Illinois area. The municipalities of Homer Glen (approximately 7,400 customer connections) and Bolingbrook (approximately 21,500 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities formed a water agency to pursue eminent domain of the water pipeline that serves those five communities. Before filing its eminent domain lawsuit in January 2013, the water agency made an offer of $37.6 million for the pipeline.

- Mooresville, Indiana: The Town of Mooresville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooresville operations in August 2012. A jury trial is scheduled for April 15 - 18, 2014. The Town has offered $6.5 million for the utility, the company's appraisal valued it at $24.1 million, and the court appointed appraisers established a value of $14.5 million.

- Monterey, California: A citizens group in Monterrey, California (approximately 40,000 customer connections submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of California American Water's Monterey service district.

We actively monitor condemnation activities that may affect us as soon as we become aware of them. We do not believe that condemnation poses a material threat to our ability to operate our Regulated Businesses.

Our Market-Based Operations

In addition to our Regulated Businesses, we operate the following lines of business in our Market-Based Operations. Of the lines of business outlined below; no single group within our Market-Based Operations generates in excess of 10% of our aggregate consolidated revenue.

Contract Operations Group

Our Contract Operations Group enters into public/private partnerships, including O&M and Design, Build and Operate ("DBO") contracts for the provision of services to water and wastewater facilities for the United States military, municipalities, the food and beverage industry and other customers. We typically make no long-term capital investment under these contracts with municipalities and other customers; instead we perform our services for a fee. During the contract term, we may make limited short term capital investments under our contracts with the United States military and certain industrial customers. Our Contract Operations Group generated revenue of $212.6 million in 2013, representing 65.3% of revenue for our Market-Based Operations.

We are party to more than 70 contracts, varying in size and scope, across the United States and Canada, with contracts ranging in terms from one to 50 years. Included in these contracts are ten 50-year contracts, including the Hill Air Force Base contract that was awarded to us in January 2014, with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases. All of our contracts with the U.S. government may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or non-performance by the subsidiary performing the contract. In either event, pursuant to the standard terms of the U.S. government contract termination provisions, we would be entitled to recover allowable costs that we may have incurred under the contract, plus the contract profit margin on incurred costs. The contract price for each of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions.

On December 31, 2011, we completed the sale of our Applied Water Management, Inc. group ("AWM"). As noted above, this subsidiary is included in discontinued operations for all periods presented. Therefore, all amounts and statistics disclosed for the Contract Operations Group refer only to on-going operations of the Contract Operations Group.

Homeowner Services Group

Our Homeowner Services Group, through our Service Line Protection Program, provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes and clogged or blocked sewer pipes inside and outside their accommodations. These repairs are not typically covered by homeowners' insurance or by their water or sewer service provider.

Our LineSaver™ program involves partnering with municipalities to offer our protection programs to homeowners serviced by the municipalities. During 2012, we entered into a contract with the New York City Water Board (the "Board"), a corporate municipal instrumentality of the State of New York, to offer our LineSaver™ program to the Board's approximately 650,000 homeowners throughout the city's five boroughs. As of December 31, 2013, our Homeowner Services Group has approximately 1.3 million customer contracts in 37 states, including the New York City customer contracts.

Terratec Environmental Ltd

Our Market-Based Operations also includes our biosolids management group, Terratec, which is located in Canada and provides environmentally sustainable management and disposal of biosolids and wastewater by-products.

Competition

We face competition in our Market-Based Operations from a number of service providers, including Veolia Environnement, American States Water, OMI and Southwest Water, particularly in the area of O&M contracting. Securing new O&M contracts is highly competitive, as these contracts are awarded based on a combination of customer relationships, service levels, competitive pricing, references and technical expertise. We also face competition in maintaining existing O&M contracts to which we are a party, as the municipal and industrial fixed term contracts frequently come up for renegotiation and are subject to an open bidding process.

Our Homeowner Services Group faces competition outside our existing footprint primarily from HomeServe USA and Utility Service Partners, Inc.

Research and Development

We established a formal research and development program in 1981 with the goal of improving water quality and operational effectiveness in all areas of our business. Our research and development personnel are located in New Jersey. In addition, our quality control and testing laboratory in Belleville, Illinois supports research through sophisticated testing and analysis. Since its inception, our research and development program has evolved to become a leading water-related research program, achieving advancements in the science of drinking water, including sophisticated water testing procedures and desalination technologies.

Since the formation of the EPA in 1970, we have collaborated with the agency to achieve effective environmental, health and safety and water quality regulation. This relationship has developed to include sharing of our research and national water quality monitoring data in addition to our treatment and distribution system optimization research. Our engagement with the EPA has helped us to achieve a leadership position for our company within the water and wastewater industry and has provided us with early insight into emerging regulatory issues and initiatives, thereby allowing us to anticipate and to accommodate our future compliance requirements.

In 2013, we spent $2.9 million on research and development compared to $2.8 million and $2.6 million spent in 2012 and 2011, respectively. Approximately one-quarter of our research budget is comprised of competitively awarded outside research grants. Such grants reduce the cost of research and allow collaboration with leading national and international researchers.

We believe that continued research and development activities are critical in providing quality and reliable service at reasonable rates, in maintaining our leadership position in the industry and will provide us with a competitive advantage as we seek additional business with new and existing customers.

Support Services

Our American Water Works Service Company subsidiary provides shared services and corporate governance that achieve economies of scale through central administration. These services are provided predominantly to our Regulated Businesses under the terms of contracts with these companies that have been approved by state PUCs, where necessary. These services, which are provided at cost, may include accounting, administration, business development, communications, corporate secretarial, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, legal, operations, procurement, rates, security, risk management, water quality and research and development. These arrangements afford our operating companies professional and technical talent on an economical and timely basis. We also operate two national customer service centers, which are located in Alton, Illinois and Pensacola, Florida.

Our security department provides oversight and governance of physical and information security throughout our operations and is responsible for designing, implementing, monitoring and supporting active and effective physical and information security controls. We have complied with EPA regulations concerning vulnerability assessments and have made filings to the EPA as required. Vulnerability assessments are conducted regularly to evaluate the effectiveness of existing security controls and serve as the basis for further capital investment in security for the facility. Information security controls are deployed or integrated to prevent unauthorized access to company information systems, assure the continuity of business processes dependent upon automation, ensure the integrity of our data and support regulatory and legislative compliance requirements. While we do not make public comments on the details of our security programs, we are in contact with federal, state and local law enforcement agencies to coordinate and improve the security of our water delivery systems and to safeguard our water supply.

Employee Matters

Approximately 50% of our workforce is represented by unions. We have 76 collective bargaining agreements in place with 18 different unions representing our unionized employees. We have three union contracts beyond expiration that affect approximately 200 employees, all of which are actively working under the old agreements. During 2014, 22 of our local union contracts will expire.

September 2010, we declared “impasse” in negotiations of our national benefits agreement with most of the labor unions representing employees in our Regulated Businesses. The prior agreement expired on July 31, 2010; however negotiations did not produce a new agreement . We implemented our last, best and final offer on January 1, 2011 in order to provide health care coverage for our employees in accordance with terms of the offer. The unions have challenged our right to implement our last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board (“NLRB”) issued a complaint against us in January 2012, claiming that we implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor. We asserted that we did, in fact, provide sufficient notice.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although we did provide sufficient notification to the Federal Mediation and Conciliation Service, we did not provide notice to state agencies, in violation of the National Labor Relations Act. The Administrative Law Judge ordered, among other things, that we cease and desist from implementing the terms of our last, best and final offer and make whole all affected employees for losses suffered as a result of our implementation of our last, best and final offer. The “make whole” order, if upheld on appeal, would require us to provide backpay plus interest, from January 1, 2011 through the date of the final determination. Based on current estimates and assumptions, we estimate the cash impact could be in the range of $3.0 to $3.5 million per year, with the total impact dependent on the length of time the issue remains unresolved. In November 2012, we filed an exception to the decision of the Administrative Law Judge in order to obtain a review by the full NRLB. We expect to hear from the NRLB in 2014.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (“SEC”). You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, *http://www.amwater.com,* shortly after we file or furnish the information to the SEC. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at their Public Reference Room, located at 100 F Street N.E., Washington, D.C. 20549. The phone number for information about the operation of the Public Reference Room is 1-800-732-0330 (if you are calling from within the United States), or 202-551-8090. Because we electronically file our reports, you may also obtain this information from the SEC internet website at *http://www.sec.gov*. You can obtain additional contact information for the SEC on their website.

The American Water corporate governance guidelines and the charters for each of the standing committees of the board of directors, together with the American Water Code of Ethics and additional information regarding our corporate governance, are available on our website, *http://www.amwater.com,* and will be made available, without charge, in print to any shareholder who requests such documents from Investor Relations Department, American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ, 08043.

ITEM 1A. RISK FACTORS

We operate in a market and regulatory environment that involves significant risks, many of which are beyond our control. In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position, results of operations or cash flows and liquidity.

Risks Related to Our Industry and Business

Our utility operations are subject to extensive economic regulation. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations.

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are economically regulated by state PUCs. Economic regulation affects the rates we charge our customers and has a significant impact on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, to enable us to finance the addition of new, or the replacement of existing, water and wastewater infrastructure and to provide us the opportunity to earn what they determine to be an appropriate rate of return on our invested capital and a return of our invested capital.

Our ability to successfully implement our business plan and strategy depends upon the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. We can provide no assurances that our rate increase requests will be approved, or that any approval will be given in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is sufficient to cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations; enable us to recover our investment; and provide us an opportunity to earn an appropriate rate of return on our investment, in which case our business, financial condition, results of operations, cash flow and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital and a return of our invested capital to the extent permitted by state PUCs. This could occur if water usage is less than anticipated in establishing rates, as billings to customers are, to a considerable extent, based on usage in addition to a base rate, or if our investments or expenses prove to be higher than was estimated in establishing rates.

Our operations and the quality of water we supply are subject to extensive environmental, water quality and health and safety laws and regulations. Compliance with increasingly stringent laws and regulations could impact our operating costs; and violations of such laws and regulations could subject the Company to substantial liabilities and costs.

Our water and wastewater operations are subject to extensive United States federal, state and local laws and regulations and, in the case of our Canadian operations, Canadian laws and regulations that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, discharge and dispose of wastewater. These requirements include the United States Clean Water Act of 1972, which we refer to as the Clean Water Act, and the United States Safe Drinking Water Act of 1974, which we refer to as the Safe Drinking Water Act, and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations. For example, recently the Monterey County Health Department, Environmental Health Bureau ("MCHD") notified our subsidiary, California American Water ("CAWC") that the MCHD had received a complaint filed with the Department of Toxic Substance Control regarding arsenic levels and disposal locations of sludge generated from the company's Ambler Park and Toro water treatment plants prior to May 2013. MCHD requested that CAWC provide MCHD with sludge disposal records, analytical results and supporting documentation related to this matter. Through two separate letters, CAWC submitted the requested documentation and information to MCHD and advised MCHD that, based on the analysis performed, it appears that some of the residual wastes from the two plants, as well as CAWC's Ryan Ranch water treatment plant, may have exceeded California hazardous waste soluble threshold limit concentration requirements and, therefore, should not have not been disposed of at the non-hazardous disposal facilities to which they were transported. CAWC further advised MCHD that, in light of the findings, CAWC modified its procedures to insure that wastes sent for disposal are properly characterized and managed. CAWC similarly reported to the Sacramento County Department of Environmental Management that it may have improperly disposed of arsenic residuals from its Isleton treatment plant before July 2013. By letter dated November 6, 2013, the Monterey County District Attorney advised CAWC that it had received a report from the MCHD that CAWC had transported and disposed such hazardous wastes in violation of applicable provisions of the California Health and Safety Code and the California Business and Professions Code which subject violators to civil penalties of up to $25,000 per violation and up to$2,500 per violation, respectively. The District Attorney invited CAWC to arrange a meeting to discuss the matter prior to taking any enforcement action, and a meeting was held on November 20, 2013. The District Attorney has not indicated whether enforcement action will be taken. Similarly, CAWC continues to discuss the matter relating to the Isleton Treatment Plant with the Sacramento County Department of Environmental Management, which has not indicated whether enforcement action will be taken. The Company is unable to predict the outcome of this matter.

In addition, state PUCs also set conditions and standards for the water and wastewater services we deliver. If we deliver water or wastewater services to our customers that do not comply with regulatory standards, or otherwise violate environmental laws, regulations or permits, or other health and safety and water quality regulations, we could incur substantial fines, penalties or other sanctions or costs, as well as damage to our reputation. In the most serious cases, regulators could force us to discontinue operations and sell our operating assets to another utility or to a municipality. Given the nature of our business which, in part, involves supplying water for human consumption, any potential non-compliance with, or violation of, environmental, water quality and health and safety laws or regulations would likely pose a more significant risk to us than to a company not similarly involved in the water and wastewater industry.

We incur substantial operating and capital costs on an ongoing basis to comply with environmental, water quality and health and safety laws and regulations. These laws and regulations, and their enforcement, generally have become more stringent over time, and new or stricter requirements could increase our costs. Although we may seek to recover ongoing compliance costs in our rates, there can be no guarantee that the various state PUCs or similar regulatory bodies that govern our Regulated Businesses would approve rate increases to recover such costs or that such costs will not materially and adversely affect our financial condition, results of operations, cash flows and liquidity.

We may also incur liabilities if, under environmental laws and regulations, we are required to investigate and clean up environmental contamination at our properties, including potential spills of hazardous chemicals, such as chlorine, which we use to treat water, or at off-site locations where we have disposed of waste or caused an adverse environmental impact. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs and could adversely affect our financial condition, results of operations, cash flows and liquidity. Such remediation costs may not be covered by insurance and may make it difficult for us to secure insurance at acceptable rates in the future.

Limitations on availability of water supplies or restrictions on our use of water supplies as a result of government regulation or action may adversely affect our access to sources of water, our ability to supply water to customers or the demand for our water services.

Our ability to meet the existing and future demand of our customers depends on the availability of an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights (determined by legislation or court decisions) and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing-flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements, which can change from time to time, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water. For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with an October 20, 2009 order of the California State Water Resources Control Board (the “2009 Order”) that our subsidiary, CAWC, significantly decrease its diversion from the Carmel River in accordance with a reduction schedule running through December 31, 2016 (the "2016 Deadline"). We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. We have implemented conservation rates and other programs to address demand and are utilizing aquifer storage and recovery facilities to store winter water for summer use. We were hopeful that we could address the water supply issues in a meaningful way through a Regional Desalination Project (the “Project”) that was to be implemented through a Water Purchase Agreement and ancillary agreements (the “Agreements”) among the Marina Coast Water District (“MCWD”), the Monterey County Water Resources Agency (“MCWRA”) and CAWC. However, the Project was subject to considerable delay and disputes among the parties. On July 7, 2011, MCWRA advised MCWD and CAWC that the Agreements were void, and on January 17, 2012, CAWC publicly announced that it had withdrawn support of the Project. Finally, on July 12, 2012, the California Public Utility Commission (“CPUC”) closed the proceedings relating to the Project. Nevertheless, disputes among the parties with respect to the Project continued thereafter, and, while CAWC and MCWRA have entered into a settlement agreement to resolve their disputes, the terms of the settlement agreement are largely contingent on approval by the CPUC of the settlement agreement, as well as CAWC's recovery through rates of its provision to MCWRA of $1.9 million in loan forgiveness and up to approximately $1.5 million in additional payments. Moreover CAWC’s disputes with MCWD remain unresolved and subject to ongoing litigation, although CAWC and MCWD currently are subject to an agreement with respect to certain claims by CAWC against MCWD that tolls the applicable statute of limitations and a deadline for commencement by CAWC of litigation relating to certain of its claims against MCWD. Following its withdrawal of support for the Project, CAWC filed an application with the CPUC on April 23, 2012 for approval of the Monterey Peninsula Water Supply Project (the “New Project”). The New Project involves construction of a desalination plant and related facilities, all to be owned by CAWC. In addition, the New Project may encompass CAWC’s purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project, a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District (“MPWMD”). The application also seeks CPUC approval of ratemaking mechanisms designed to enable CAWC to recover its costs related to construction and operation of the New Project, including funding for principal and interest on a State Revolving Fund Loan that CAWC believes it is eligible to receive. Under a July 2012 settlement agreement among CAWC and 15 other parties that have intervened in the CPUC proceedings with respect to the New Project, including several Monterey County government entities the parties have agreed to, among other things, cost caps for the desalination plant and certain pipeline facilities to be constructed by CAWC aggregating $295.7 million to $338.4 million, depending on the size of the desalination plant ultimately approved by the CPUC. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to CAWC, and, if the GWR Project supplies water to CAWC, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water. The settlement agreements are subject to the approval of the CPUC and will not take effect unless the CPUC determines they are reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed New Project, currently scheduled for the first quarter of 2015. CAWC’s ability to move forward on the New Project will be subject to extensive administrative review, including public hearings before the CPUC and testimony from intervening parties. In addition, a large number of federal, state and local approvals must also be obtained. moreover, due to delays related to, among other things, determination of the need for government approval to proceed with certain testing required to enable the preparation of the environmental impact report, CAWC currently estimates that the earliest date by which the New Project could be completed is mid to late 2018. Because the projected completion date is beyond the 2016 Deadline, CAWC has commenced discussions with the State Water Resources Control Board and other government representatives to extend the 2016 Deadline. While CAWC believes the discussions have been constructive, we cannot assure that that the 2016 Deadline will be extended. We cannot predict the ultimate effect of the events described above on CAWC’s efforts to secure alternative sources of water, or on CAWC’s exposure to liabilities as a result of its ongoing disputes relating to the Project or its inability to meet the 2016 Deadline under the 2006 Order. If CAWC is unable to secure an alternative source of water, or if other adverse consequences result from the events described above, our business, financial condition, results of operations and cash flows could be adversely affected.

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas. If a regional drought were to occur, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. For example, as a result of the reduced rain fall and overall dry conditions throughout the state of California, CAWC has been closely monitoring its owned and purchased water supplies. On January 17, 2014, the California Governor issued a drought declaration asking Californians to reduce their water use by 20%. At this time, CAWC is awaiting determination by CPUC staff on an advice letter CAWC submitted that would clarify the water conservation and rationing plan for certain districts in CAWC's tariffs, including a conservation and rationing mechanism for the Sacramento district. The CPUC suspended the effective date of the advice letter until after CAWC holds a public meeting for the Sacramento district. During a February 2014 meeting between the CPUC staff and representatives from several water utilities, including CAWC, participants noted that the drought may result in utilities opening the Catastrophic Event Memorandum Accounts in all districts, which affords the opportunity to seek recovery of extraordinary expenditures related to the drought. Following drought conditions, water demand may not return to pre-drought levels even after restrictions are lifted. Decreased use of water services resulting from any of these events may adversely affect our business, financial condition, results of operations and cash flows.

Service disruptions caused by severe weather conditions may disrupt our operations and economic conditions may reduce the demand for water services, either of which could adversely affect our financial condition and results of operations.

Service interruptions due to severe weather events are possible across all our service areas. These include winter storms and freezing conditions, high wind conditions, tornados, earthquakes, coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, hurricanes and severe electrical storms. These weather events may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. In the third quarter of 2011, our New Jersey and Pennsylvania subsidiaries experienced service interruptions in certain of our operating areas and, in some cases, a loss in customers as a result of the extreme weather, including Hurricane Irene and other severe storms in the Northeast. In October 2012, our east coast subsidiaries were affected by Hurricane Sandy. The most significant impact to our business was caused by the widespread power outages caused by the storm’s heavy winds, rain and snow.

In addition, adverse economic conditions can cause our customers, particularly industrial customers, to curtail operations. A curtailment of operations by an industrial customer would typically result in reduced water usage. In more severe circumstances, the decline in usage could be permanent. Any decrease in demand resulting from difficult economic conditions could adversely affect our financial condition and results of operations.

Regulatory and environmental risks associated with the collection, treatment and disposal of wastewater may impose significant costs.

The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve significant environmental risks. If collection or treatment systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages, which may not be recoverable in rates. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. Moreover, if we are deemed liable for any damage caused by overflow, our losses might not be covered by insurance, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

The current regulatory rate setting structure may result in a significant delay, or "regulatory lag," from the time that we invest in infrastructure improvements, incur increased operating expenses or experience declining water usage, to the time at which we can address these events through the rate case application process; our inability to minimize regulatory lag could adversely affect our business.

There is typically a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating expense increase and the time when those costs are reflected in rates. In addition, billings permitted by state PUCs typically are, to a considerable extent, based on the volume of water usage in addition to a minimum base rate. Thus, we may experience a regulatory lag between the time our revenues are affected by declining usage and the time we are able to adjust the rate per gallon of usage to address declining usage. Our inability to reduce this regulatory lag could have an adverse effect on our financial condition, results of operations, cash flow and liquidity.

The Company endeavors to reduce regulatory lag by pursuing positive regulatory policies. For example, seven state PUCs permit rates to be adjusted outside of the rate case application process through surcharges that address certain capital investments, such as replacement of aging infrastructure. These surcharges are adjusted periodically based on factors such as project completion or future budgeted expenditures, and specific surcharges are eliminated once the related capital investment is incorporated in new PUC approved rates. Other examples of such programs include states that allow us to increase rates for certain cost increases that are beyond the utility's control, such as purchased water costs or property or other taxes, or power, conservation, chemical or other expenditures. These surcharge mechanisms enable us to adjust rates closer to the time costs have been incurred than would be the case under the rate case application process. While these programs have been a positive development and we continue to work for expansion of programs to mitigate regulatory lag, some state PUCs have not approved such programs and there is no assurance that any PUC will adopt any of them in the future or that existing programs will continue in their current form, or at all, in the future. Furthermore, no state has adopted surcharge programs that include all elements of cost that may change between general rate proceedings. Although we intend to continue our efforts to expand state PUC approval of surcharges to address issues of regulatory lag, our efforts may not be successful, in which case our business, financial condition, results of operations, cash flow and liquidity may be adversely affected.

Our Regulated Businesses require significant capital expenditures and may suffer if we fail to secure appropriate funding to make investments, or if we experience delays in completing major capital expenditure projects.

The water and wastewater utility business is very capital intensive. We invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2013, we invested $950 million in net Company-funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems could increase in the future. We fund capital improvement projects using cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and issuances of long-term debt and equity securities. We can provide no assurance that we will be able to access the debt and equity capital markets on favorable terms or at all.

In addition, we could be limited in our ability to both pursue growth and pay dividends in line with our dividend policy. In particular, the use of cash to pay dividends could affect our ability to make large acquisitions or pursue other growth opportunities that require cash investments in amounts greater than our available cash and external financing resources. In order to fund construction expenditures, acquisitions (including tuck-in acquisitions), principal and interest payments on our indebtedness, and dividends at the level currently anticipated under our dividend policy, we expect that we will need additional financing. However, we intend to retain sufficient cash from operating activities after the distribution of dividends to fund a portion of our capital expenditures.

If we do not obtain sufficient capital, we may be unable to maintain our existing property, plant and equipment, realize our capital investment strategies, meet our growth targets and successfully expand the rate base upon which we are able to earn future returns on our investment and a return of our investment. Even if we have adequate resources to make required capital expenditures, we face the additional risk that we will not complete our major capital expenditures on time, as a result of construction delays or other obstacles. Each of these outcomes could adversely affect our financial condition and results of operations.

Weather conditions could adversely affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand tends to vary with temperature , rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Market conditions may unfavorably impact the value of benefit plan assets and liabilities, as well as assumptions related to the benefit plans, which may require us to provide significant additional funding.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. These assets are subject to market fluctuations, which may cause investment returns to fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets can increase the funding requirements under our pension and postretirement benefit plans if future returns on these assets are insufficient to offset the decline in value. Additionally, the Company’s pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. If interest rates decrease, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, such as increases in life expectancy assumptions may also increase the funding requirements of our obligations related to the pension and other postretirement benefit plans. Future increases in pension and other postretirement costs as a result of reduced plan assets may not be fully recoverable in rates, and our results of operations and financial position could be negatively affected.

In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension and postretirement plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased, which could adversely affect our financial position and results of operations.

Our indebtedness could affect our business adversely and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flows to satisfy our liquidity needs.

As of December 31, 2013, our indebtedness (including preferred stock with mandatory redemption requirements) was $5,874.5 million, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital requirements or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at a variable rate;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- impairing our access to the capital markets for debt and equity
- likely requiring that an increasing portion of our cash flows from operations be dedicated to the payment of the principal and interest on our debt, thereby reducing funds available for future operations, acquisitions, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our revolving credit facility or issue new debt securities in the capital markets. Moreover, additional borrowings may be required to refinance outstanding indebtedness. Debt maturities and sinking fund payments in 2014 and 2015 are $14.2 million and $60.7 million, respectively. We can provide no assurances that we will be able to access the debt capital markets on favorable terms, if at all. If new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

We will depend primarily on operations to fund our expenses and to pay the principal and interest on our outstanding debt. Therefore, our ability to pay our expenses and satisfy our debt service obligations depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors beyond our control. If we do not have sufficient cash flows to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, sell assets, borrow additional funds or sell additional equity. In addition, if our business does not generate sufficient cash flows from operations, or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to changes in our business, which could cause our operating results and prospects to be affected adversely.

Contamination of our sources of water could result in service interruptions and human exposure to hazardous substances and subject our subsidiaries to civil or criminal enforcement actions, private litigation and cleanup obligations.

Our water supplies into our treatment plants or the supplies then delivered into our distribution system are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as perchlorate and methyl tertiary butyl ether, and possible terrorist attacks. If one of our water supplies is contaminated, depending on the nature of the contamination, we may have to either 1) interrupt the use of that water supply and locate an adequate supply of water from another water source, including, in some cases, through the purchase of water from a third-party supplier, or 2) continue the water supply under a “Do Not Use” protective order that allows for continuation of basic sanitation and essential fire protection. If service is disrupted and we are unable to access a substitute water supply in a cost-effective manner, our financial condition, results of operations, cash flows, liquidity and reputation may be adversely affected. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. We might not be able to recover costs associated with treating or decontaminating water supplies through rates, or recovery of these costs may not occur in a timely manner. Moreover, we could be held liable for environmental damage as well as damages arising from toxic tort or other lawsuits, criminal enforcement actions, contractual obligations or other consequences arising out of human exposure to hazardous substances in our drinking water supplies.

In this regard, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal (4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglocol ethers), into the Elk River near the West Virginia-American Water Company (“WVAWC”) treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection (“DEP”) (Freedom Industries first notified DEP on January 21, 2014 that PPH was also leaked), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state, and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a “Do Not Use” order to approximately 300,000 people in parts of nine West Virginia counties. The order addressed the use of water for drinking, cooking, washing, and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention (“CDC”) and U.S. Environmental Protection Agency indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC’s customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals are at a non-detectable level remained in place. In addition, based on re-analysis of previously saved samples, PPH was no longer detected at any sampling locations as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM are below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the “non-detect” level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC is continuing sampling and testing in an effort to pinpoint its flushing activities and address odor issues.

WVAWC has and may continue to incur significant costs in responding to this incident and may not be able to recover such costs through rates or from insurers. Even if recovery is possible, it may not occur in a timely manner. Moreover, government investigations relating to the Freedom Industries spill have been initiated, state and federal legislatures have begun considering changes to existing laws, and more than 50 lawsuits have been filed to date against WVAWC and, in a few cases, the Company or other Company affiliates. Freedom Industries (which is now in bankruptcy) is also named in many of the complaints. In addition, a purported stockholder has made a demand that the Company's board of directors take action to remedy alleged breaches of fiduciary duties by all of the members of the board and another Company officer in connection with this matter, which is being referred to the board of directors for its consideration. While the Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company and WVAWC believe they and other Company affiliates have valid, meritorius defenses to the lawsuits, WVAWC will incur substantial defense costs. Moreover, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might impact water utility operations.

Work stoppages and other labor relations matters could adversely affect our results of operations.

Approximately 50% of our workforce is represented by unions. We have 76 collective bargaining agreements in place with 18 different unions representing our unionized employees. We might not be able to renegotiate labor contracts on terms that are fair to us. Any negotiations or dispute resolution processes undertaken in connection with our labor contracts could be delayed or affected by labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages, and our failure to obtain favorable labor contract terms during renegotiations may adversely affect our financial condition, results of operations, cash flows and liquidity. In September 2010, we declared “impasse” in negotiations of our national benefits agreement with most of the labor unions representing employees in our Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. We implemented our “last, best and final” offer on January 1, 2011 in order to provide health care coverage for our employees in accordance with the terms of the offer. The unions have challenged our right to implement our last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board (“NLRB”) issued a complaint against us in January 2012, claiming that we implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor. We have asserted that we did, in fact, provide sufficient notice. On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although we did provide sufficient notification to the Federal Mediation and Conciliation Service, we did not provide notice to state agencies, in violation of the National Labor Relations Act. The Administrative Law Judge ordered, among other things, that we cease and desist from implementing the terms of our last, best and final offer and make whole all affected employees for losses suffered as a result of our implementation of our last, best and final offer. The “make whole” order, if upheld on appeal, would require us to provide backpay plus interest, from January 1, 2011 through the date of the final determination by the NLRB. Based on current estimates and assumptions, we estimate the cash impact could be in the range of $3.5 to $4.5 million per year, with the total impact dependent on the length of time the issue remains unresolved. In November 2012, we filed an exception to the decision of the Administrative Law Judge in order to obtain a review by the full NLRB. Although no work stoppages have occurred with respect to the expired contracts described above, we cannot provide assurance that a work stoppage or strike will not occur. While we have developed contingency plans to be implemented as necessary if a work stoppage or strike does occur, we cannot assure that a strike or work stoppage would not have a material adverse impact on our results of operations, financial position or cash flows.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own 87 dams. A failure of any of those dams could result in personal injury and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

We also are required from time to time to decommission, repair or upgrade the dams that we own. The cost of such repairs can be and has been material. We might not be able to recover such costs through rates. The inability to recover these higher costs or delayed recovery of the costs as a result of regulatory lag can affect our financial condition, results of operations, cash flows and liquidity. The federal and state agencies that regulate our operations may adopt rules and regulations requiring us to dismantle our dams.

Any failure of our network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

Our operating subsidiaries distribute water and collect wastewater through an extensive network of pipes and storage systems located across the United States. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water and wastewater delivery requirements prescribed by government regulators, including state PUCs with jurisdiction over our operations, and adversely affect our financial condition, results of operations, cash flows, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future. Moreover, to the extent such business interruptions or other losses are not covered by insurance, they may not be recovered through rate adjustments.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.

In addition to cash from operations, we rely on our revolving credit facility, commercial paper programs, and the capital markets to satisfy our liquidity needs. In this regard, our principal external source of liquidity is our revolving credit facility. We regularly use our commercial paper program as a principal source of short-term borrowing due to the generally more attractive rates we obtain in the commercial paper market. However, disruptions in the capital markets could limit our ability to access capital. While our credit facility lending banks have met all of their obligations, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry's financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. In order to meet our short-term liquidity needs, particularly if borrowings through the commercial paper market are unavailable, we maintain a $1.25 billion revolving credit facility. Under the terms of our revolving credit facility, commitments, which total $1.18 billion, mature in October 2018. Our inability to maintain, renew or replace these commitments could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity.

American Water Capital Corp. ("AWCC"), our financing subsidiary, had no outstanding borrowings under the revolving credit facility and $ 41.6 million of outstanding letters of credit under the credit facility as of February 21, 2014. AWCC had $629.9 million of outstanding commercial paper as of February 21, 2014. We cannot assure that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Longer term disruptions in the capital and credit markets as a result of uncertainty, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital and credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures.

Any impediments to our access to the capital markets, failure of our lenders to meet their commitments, increased interest expense, or cash conservation measures resulting from financial market disruptions or otherwise could adversely affect our business, financial condition, results of operations, cash flow, and liquidity.

Changes in laws and regulations over which we have no control and changes in certain agreements can significantly affect our business and results of operations.

New legislation, regulations, government policies or court decisions can materially affect our operations. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as regulators and the policies of the regulatory agencies that they serve. New laws or regulations, new interpretations of existing laws or regulations, changes in agency policy, including those made in response to shifts in public opinion, or conditions imposed during the regulatory hearing process may affect our business in a number of ways that could have an adverse effect on our business, financial condition, results of operations, cash flows and liquidity, including the following:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- changing water quality or delivery service standards, including storage capacity, or wastewater collection, treatment, discharge and disposal standards with which we must comply;
- restricting our ability to terminate our services to customers who owe us money for services previously provided or limiting our bill collection efforts;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to buy or sell assets or issue securities;
- changing regulations that affect the benefits we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
- making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- placing limitations, prohibitions or other requirements on the sharing of information and transactions by or between a regulated utility and its affiliates, including us, our service company and any of our other subsidiaries;

- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and
- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

An important part of our growth strategy is the acquisition of water and wastewater systems. Any future acquisitions we undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

An important element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- unknown capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly results;
- other acquisition-related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business, pay dividends and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. If consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities near our existing operations, thereby preventing us from acquiring them. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service territories. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations. Any of these risks may adversely affect our business, financial condition, and results of operations.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.

Our total assets include substantial goodwill. At December 31, 2013, our goodwill totaled $1,207.8 million. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003 and the acquisition of E'Town Corporation by a predecessor to our previous owner in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past. In the aggregate, goodwill impairment charges including those recognized in our discontinued operations taken in each year from 2006 through 2009 totaled approximately $1.93 billion and reduced net income by approximately $1.91 billion.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These market events could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in our market price consistent with our peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

The assets of our Regulated Businesses are subject to condemnation through eminent domain.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized efforts may arise from time to time in one or more of the service areas in which our Regulated Businesses operate to convert our assets to public ownership and operation through exercise of the governmental power of eminent domain. Should a municipality or other government subdivision seek to acquire our assets through eminent domain, we may resist the acquisition. For example, condemnation threats have been made over the last several years with respect to the following systems:

- Chicago, Illinois area. The municipalities of Homer Glen (approximately 7,400 customer connections) and Bolingbrook (approximately 21,500 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities formed a water agency to pursue eminent domain of the water pipeline that serves those five communities. Before filing its eminent domain lawsuit in January 2013, the water agency made an offer of $37.6 million for the pipeline.

- Mooresville, Indiana: The Town of Mooresville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooresville operations in August 2012. A jury trial for valuation is set for April 15-18, 2014. The Town originally appraised the system at $6.5 million, the company's appraisal valued it at $24.1 million, and the court appointed appraisers established a value of $14.5 million.

- Monterey, California: A citizens group in Monterey, California (approximately 40,000 customer connections) submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of California American Water's Monterey service district.

Contesting an exercise of condemnation through eminent domain may result in costly legal proceedings and may divert the attention of the affected Regulated Business's management from the operation of its business. Moreover, our efforts to resist the acquisition may not be successful.

If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain, there is a risk that we will not receive adequate compensation for the business, that we will not be able to keep the compensation, or that we will not be able to divest the business without incurring significant one-time charges.

We rely on our information technology ("IT") systems to assist with the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our IT systems are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. We depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. While we recently completed the business transformation implementation for our ERP, EAM and CIS systems, a number of our mission and business critical IT systems are older, such as our SCADA (Supervisory Control And Data Acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cyber security incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;

- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

These events may result in physical and/or electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of our outdated existing technology to allow us to continue to operate at our current level of efficiency.

We may not be able to fully utilize our U.S. and state net operating loss carryforwards.

As of December 31, 2013, we had U.S. federal and state net operating loss (“NOL”) carryforwards of approximately $1,182.1 million and $628.0 million, respectively. Our federal NOL carryforwards begin to expire in 2028, and our state NOL carryforwards will expire between 2014 and 2033. Our ability to utilize our NOL carryforwards is primarily dependent upon our ability to generate sufficient taxable income. Moreover, because our previous owner’s divestiture of its stock was considered an “ownership change” under Section 382 of the Internal Revenue Code, the amount of NOL carryforwards that may be utilized in any year is limited. Our management believes the federal NOL carryforwards are more likely than not to be recovered and therefore currently require no valuation allowance. At December 31, 2013, $130.6 million of the state NOL carryforwards have been offset by a valuation allowance because the Company does not believe these NOLs will more likely than not be realized in the future, and we have, in the past, been unable to utilize certain of our NOLs. The establishment or increase of a valuation allowance in the future would reduce our deferred income tax assets and our net income.

Our actual results may differ from those estimated by management in making its assessment as to our ability to use the NOL carryforwards. Moreover, changes in income tax laws, the economy and general business environment could affect the future utilization of the NOL carryforwards. If we are unable to fully utilize our NOL carryforwards to offset taxable income generated in the future, our financial position, results of operations and cash flows could be materially adversely affected.

Our Market-Based Operations, through American Water (excluding our regulated subsidiaries) provide performance guarantees, including financial guarantees or deposits, to our public-sector and public clients, who may seek to enforce the guarantees if our Market-Based Operations do not satisfy certain obligations.

Under the terms of some of our agreements for the provision of services to water and wastewater facilities with municipalities, other governmental entities and other customers, American Water (excluding our regulated subsidiaries) provides guarantees of specified performance obligations of our Market-Based Operations, including financial guarantees or deposits. In the event our Market-Based Operations fail to perform these obligations, the entity holding the guarantees may seek to enforce the performance commitments against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flows, and liquidity could be adversely affected.

At December 31, 2013, we had remaining performance commitments as measured by remaining contract revenue totaling approximately $2916.0 million and this amount is likely to increase if our Market-Based Operations grow. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms.

Our Market-Based Operations’ long-term contracts with the Department of Defense may be terminated for the convenience of the U.S. Government and are subject to periodic contract price redetermination.

All of our contracts with the Department of Defense for the operation and maintenance of water and wastewater systems may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. Government or as a result of default or non-performance by the subsidiary performing the contract. In addition, the contract price for each of these military contracts is typically subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Any early contract termination or unfavorable price redetermination could adversely affect our results of operations.

We operate a number of water and wastewater systems under O&M contracts and face the risk that the owners of those systems may fail to maintain those systems, which may negatively affect us as the operators of the systems.

We operate a number of water and wastewater systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, and it is generally the responsibility of the owner to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Our Market-Based Operations are party to long-term contracts to operate and maintain water and wastewater systems under which we may incur costs in excess of payments received.

Some of our Market-Based Operations enter into long-term contracts pursuant to which they agree to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities, which includes responsibility for certain major maintenance for some of those facilities, in exchange for an annual fee. Our Market-Based Operations are generally subject to the risk that costs associated with operating and maintaining the facilities, including production costs such as purchased water, electricity, fuel and chemicals used in water treatment, may exceed the fees received from the municipality or other contracting party. In addition, directly or through our market-based subsidiaries, we often guarantee our Market-Based Operations' obligations under those contracts. Losses under these contracts or guarantees may adversely affect our financial condition, results of operations, cash flows and liquidity.

Our inability to efficiently optimize and stabilize our recently implemented business transformation project, could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

Over the past several years, we have implemented a "business transformation" project, which is intended to improve our business processes and upgrade our legacy core information technology systems. This multi-year, enterprise-wide initiative supports our broader strategic initiatives. The project is intended to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service capabilities. The scale and costs associated with the business transformation project were significant. Any technical or other difficulties in optimizing and stabilizing this initiative may increase the costs of the project and have an adverse effect on our operations and reporting processes, including our internal control over financial reporting. In August 2012, our new business systems associated with Phase I of our business transformation project became operational. Phase I consisted of the roll-out of the Enterprise Resource Planning systems ("ERP"), which encompass applications that handle human resources, finance, and supply chain/procurement management activities. In the second quarter of 2013, we implemented Phase II of our business transformation project in a number of our regulated subsidiaries. In the fourth quarter of 2013, Phase II of our business transformation project was implemented in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which manages an asset's lifecycle, and a Customer Information system, which contains all billing and collections data pertaining to American Water's customers for our Regulated segment. Although efforts have been made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

As we make adjustments to our operations, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. Further, we may not realize anticipated cost improvements and greater efficiencies from the project.

We operate numerous information technology systems that have varying degrees of integration, sometimes leading to inefficiencies. Therefore, delays in stabilization and optimization of the business transformation project will also delay cost savings and efficiencies expected to result from the project. We may also experience difficulties consolidating our current systems, moving to a common set of operational processes and implementing a successful change management process. These difficulties may impact our ability to meet customer needs efficiently. Any such delays or difficulties may have a material and adverse impact on our business, client relationships and financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our properties consist of transmission, distribution and collection pipe, water and wastewater treatment plants, pumping wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, software rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water, and the collection and treatment of wastewater. Substantially all of our properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of our mortgage bonds. We lease our corporate offices, equipment and furniture, located in Voorhees, New Jersey from certain of our wholly-owned subsidiaries. These properties are utilized by our directors, officers and staff in the conduct of the business.

Our regulated subsidiaries own, in the states in which they operate, transmission , distribution and collection pipes, pump stations, treatment plants, storage tanks, reservoirs and related facilities. A substantial acreage of land is owned by our Regulated Businesses, the greater part of which is located in watershed areas, with the balance being principally sites of pumping and treatment plants, storage reservoirs, tanks and standpipes. Additionally, property and facilities including such items as well fields, tanks, offices and operation centers, are also leased by our regulated subsidiaries. Our Market-Based Operations' properties consist mainly of spreading and waste transportation equipment, office furniture and IT equipment and are primarily located in New Jersey and Canada. Approximately 50% of our properties are located in New Jersey and Pennsylvania.

We maintain property insurance against loss or damage to our properties by fire or other perils, subject to certain exceptions. For insured losses, we are self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

We believe that our properties are generally maintained in good operating condition and in accordance with current standards of good water and wastewater works industry practice, and units of property are replaced as and when necessary.

ITEM 3. LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

In 1995, the California Water Resources Control Board (the "Water Resources Control Board") issued an administrative order (the "1995 Order") to California-American Water Company ("CAWC") requiring CAWC to implement an alternative water supply in lieu of diversions from the Carmel River. The Water Resources Control Board held administrative hearings in the summer of 2008 to address claims that CAWC has exceeded its water diversion rights in the Carmel River and has not diligently pursued establishing an alternative water supply as required by the 1995 Order. The Water Resources Control Board adopted a Cease and Desist Order applicable to CAWC on October 20, 2009 (the "2009 Order"). The 2009 Order finds that CAWC has not sufficiently implemented actions to terminate its unpermitted diversions from the Carmel River as required by the 1995 Order. The 2009 Order requires, among other things, that CAWC significantly decrease its yearly diversions from the Carmel River according to a set reduction schedule running from the date the 2009 Order was adopted until December 31, 2016, at which point all unpermitted diversions must end. Failure to effect the decrease in diversions mandated by the 2009 Order could result in substantial penalties. We can provide no assurances that CAWC will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order or that any such compliance will not result in material additional costs or obligations to us. As noted below, CAWC does not expect to have sufficient alternative sources of water available by the December 31, 2016 deadline, and has begun discussions with the Water Resources Control Board to extend the deadline.

On December 2, 2010, the California Public Utilities Commission ("CPUC") approved the Regional Desalination Project (the "Project"), involving the construction of a desalination facility on the California central coast, north of Monterey. The Project was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among the Marina Coast Water District ("MCWD"), the Monterey County Water Resources Agency ("MCWRA") and CAWC. The desalination facility was to be constructed and owned by MCWD, and MCWRA was to construct the wells that were to supply water to the desalination facility. The Project was intended, among other things, to fulfill CAWC's obligations under the 1995 Order, in addition to other obligations.

The Project was subject to delay due to, among other things, funding delays and investigations and inquiries initiated by public authorities relating to an alleged conflict of interest concerning a former member of the MCWRA Board of Directors (the "Former Director"). The Former Director was paid for consulting work by a contractor to MCWD while serving on the MCWRA Board of Directors. The contractor subsequently was retained as project manager for the Project. (On November 15, 2011, the Monterey County District Attorney charged the Former Director with two felony counts of conflict of interest relating to the Project, as well as additional felony and misdemeanor counts for other activities.)

On July 7, 2011, MCWRA advised MCWD and CAWC that the Agreements were void as a result of the conduct of the Former Director. Subsequently, on August 12, 2011, CAWC advised MCWD and MCWRA that they have defaulted in performance of certain financing obligations under the Water Purchase Agreement. By letter delivered to MCWD and MCWRA on September 28, 2011, CAWC terminated the Agreements, based on MCWRA's repudiation of the Agreements. In other communications among the parties, each of MCWD and MCWRA have stated that it complied with the financing obligations, and MCWD further responded that, among other things, CAWC did not comply on a timely basis with an obligation under the Water Purchase Agreement that CAWC provide a letter of credit. MCWD also asserted that the Agreements remain in effect. On January 17, 2012, following unsuccessful mediation efforts among the parties, CAWC publicly announced that it had withdrawn support of the Project.

Disputes among the parties with respect to the Project continued thereafter. In public filings before the CPUC, MCWD asserted, among other things, that the CPUC should require CAWC to reimburse MCWD for all costs expended by MCWD in connection with the Project. MCWRA asserted that it was entitled to reimbursement of all costs or expenses relating to the Project, including enumerated expenses under the W PA. Each of MCWD and MCWRA also claimed entitlement to forgiveness of the indebtedness to CAWC that it incurred in connection with the Project. In response, CAWC challenged MCWD's claim that it is entitled to reimbursement for certain purported litigation expenses, and has stated generally that, in light of the failure of MCWD and MCWRA to fulfill their contractual obligations under the Water Purchase Agreement, their entitlement to reimbursement is unclear. On July 12, 2012, the CPUC closed the proceedings relating to the Project and stated that it would examine the recoverability of costs related to the Project in other proceedings. CAWC plans to file a new application seeking recovery of legal costs relating to the Project after any pending legal disputes are resolved.

On September 17, 2012, CAWC and MCWRA entered into a Tolling and Standstill Agreement whereby each party agreed to toll the statute of limitations on any claims either party may have against the other with respect to the Project and agreed not to commence litigation against the other while the agreement is in effect. In December 2012, CAWC, MCWRA, and the County of Monterey entered into a settlement agreement under which CAWC will forgive approximately $1.9 million previously loaned by CAWC to MCWRA in connection with the Project, and CAWC will make additional payments of up to approximately $1.5 million to MCWRA (approximately half of which will be paid directly to MCWRA; the remaining amount will be placed in an escrow account to pay claims of consultants and contractors against MCWRA relating to the Project). The settlement agreement, the debt forgiveness and the additional payments are conditioned on CPUC approval, including approval of CAWC rate recovery of the debt forgiveness and the additional payments. The settlement agreement does not affect a civil proceeding filed by CAWC for declaratory relief relating to the validity of the Agreements, which is described below. On May 24, 2013, CAWC filed an application with the CPUC for approval of the settlement agreement and rate recovery on CAWC's debt forgiveness and additional payments to MCWRA under the settlement agreement. The application is pending.

CAWC sought to enter into an agreement with MCWD whereby each party would agree to toll the statute of limitations on any claims either party may have against the other with respect to the Project and agree not to commence litigation against the other, but MCWD initially refused to do so. Therefore, on September 18, 2012, CAWC filed a formal claim with the MCWD Board seeking monetary damages against MCWD. In its claim, CAWC alleges that the Project was terminated due to, among other things, MCWD's breach of one of the Agreements by failing to use its best efforts to obtain project financing, that MCWD has failed to repay approximately $6 million loaned by CAWC to MCWD in connection with the Project, and that CAWC made substantial expenditures in connection with the Project, which it is entitled to recover from MCWD. CAWC has claimed damages potentially in excess of $20 million. On November 2, 2012, MCWD provided notice that the Board of MCWD rejected CAWC's claims for damages. CAWC had six months from such date to file a court action on this claim, but prior to the expiration of the six month period, CAWC and MCWD entered into a tolling agreement, which, as extended by subsequent agreement, toll applicable statutes of limitations and the deadline for commencement of litigation regarding CAWC's claims until March 1, 2014.

On October 4, 2012, CAWC filed a Complaint for Declaratory Relief in the Monterey County Superior Court against MCWRA and MCWD, seeking a determination by the Court as to whether the Agreements are void as a result of the Former Director's alleged conflict of interest, or remained valid. On November 21, 2012, MCWD filed an Answer to CAWC's Complaint, a Motion to Change Venue, and a Cross-Complaint for Declaratory Relief. MCWD's cross-complaint seeks a judicial declaration that any challenge to the validity of the Agreements are time-barred or barred by the California Public Utilities Code. MCWRA filed its Answer to CAWC's cross-complaint on December 7, 2012, alleging, among other things, that this action must be stayed pending conclusion of the criminal proceeding relating to the alleged conflict of interest by the Former Director. After CAWC indicated that it did not object to a change of venue, the Monterey County Superior Court approved MCWD's motion to transfer the case to San Francisco County Superior Court, and the transfer was accepted by the San Francisco County Superior Court on January 30, 2013. On October 9, 2013, MCWD filed a Motion for Summary Judgment and Summary Adjudication, seeking a determination that the Agreements are valid. In its motion, MCWD asserts that the Court does not have jurisdiction to determine the validity of the agreements on the basis that the agreements were approved by final decisions of the CPUC, and under the California Public Utilities Code, superior courts are prohibited from exercising jurisdiction to decide matters that would interfere with the CPUC's policies or performance of its duties. MCWD also argued that the action was barred by 60-day statutes of limitations applicable to certain contracts entered into by the MCWD and to certain contracts entered into by the MCWRA. CAWC filed responsive pleadings challenging the motion. On

February 21,2014, the Court conducted a hearing on the motion, and ordered the parties to submit additional briefs by February 21, 2014. Subject to the Court's decision on the motion, a trial has been scheduled to commence on March 24, 2014.

On April 23, 2012, CAWC filed an application with the CPUC for approval of the Monterey Peninsula Water Supply Project (the "New Project"). The New Project involves construction of a desalination plant and related facilities, all to be owned by CAWC. In addition, the New Project may encompass CAWC's purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project (the "GWR Project"), a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District ("MPWMD"). The New Project also would involve aquifer storage and recovery through an already established aquifer storage and recovery program between CAWC and the MPWMD. CAWC stated in the application that it anticipates, based on discussions with the Water Resources Control Board, that it is eligible for a State Revolving Fund Loan for the New Project. The application also seeks CPUC approval of ratemaking mechanisms designed to enable CAWC to recover its costs related to construction and operation of the New Project, including funding for principal and interest on the State Revolving Fund Loan.

On July 31, 2013, CAWC entered into a settlement agreement with 15 other parties that have intervened in the CPUC proceedings with respect to the New Project, including several Monterey County government entities, the Division of Ratepayer Advocates of the CPUC and several interest groups. Under the settlement agreement, the parties have agreed on several matters relating to the New Project, including, among other things, the following: cost caps for the desalination plant and certain pipeline facilities to be constructed by CAWC aggregating $295.7 million to $338.4 million, depending on the size of the desalination plant ultimately approved by the CPUC; the process for recovery of project costs, including cost recovery for capital (CAWC agreed to maintain a fixed equity investment in the New Project equal to approximately 27% of total costs related to the desalination plant and certain other facilities to be constructed by CAWC), and operation and maintenance costs; procedures by which CAWC may seek recovery for reasonable and prudent costs above the caps; recommended criteria the CPUC should use to determine whether CAWC should build a smaller desalination plant to accommodate CAWC's purchase of water from the GWR Project; the development of a hydrogeologic study work plan to determine the extent, if any, to which the proposed New Project may adversely affect the Salinas River Groundwater Basin and the water supply; contingency measures if the initially proposed intake wells, brine discharge mechanisms and plant location are infeasible; and financing mechanisms for the New Project. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to CAWC, and, if the GWR Project supplies water to CAWC, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water.

The settlement agreements are subject to the approval of the CPUC and will not take effect unless the CPUC determines they are reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed New Project, which currently is expected to be issued in the first quarter of 2015.

Moreover, CAWC's ability to move forward on the New Project is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the settlement agreements. In addition, there have been delays in the initial timetable for preparation of the environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. As a result, CAWC estimates that the earliest date by which the New Project could be completed is mid- to late 2018. We cannot assure that CAWC's application for the New Project will be approved or that the New Project will be completed on a timely basis, if ever.

Because the projected completion date of the New Project is beyond the December 31, 2016 deadline for CAWC to terminate unpermitted diversions from the Carmel River, CAWC has commenced discussions with the Water Resources Control Board and other government representatives to extend the December 2016 deadline. While CAWC believes the discussions have been constructive, we cannot assume that the deadline will be extended.

Water Treatment Residuals Disposal Matters

CAWC operates six water treatment plants in California that remove excess arsenic from raw water in order to achieve compliance with applicable drinking water standards. The water treatment plants are located in Monterey (Ambler, Ryan Ranch, Toro), Sacramento (Isleton, Walnut Grove) and Sonoma (Larkfield) Counties. The removal process generates a waste stream ("residuals") that contains, among other things, low levels of the arsenic removed from the raw water. If arsenic levels in solid waste exceed certain specified concentrations, the waste should be characterized as "hazardous." Under the California Hazardous Waste Control Act ("HWCA"), hazardous waste is subject to different transportation and disposal requirements than non-hazardous waste. For purposes of classifying a waste as hazardous, California uses a threshold for arsenic that is significantly lower than the threshold specified by the United States Environmental Protection Agency. In April 2013, the Monterey County Health Department, Environmental Health Department ("MCHD") notified CAWC that the MCHD received a complaint filed with the California Department of Toxic Substance Control regarding arsenic levels and disposal locations of sludge generated from CAWC's Ambler Park and Toro water treatment plants prior to May 2013. MCHD requested that CAWC provide MCHD with sludge disposal records, analytical results and supporting documentation related to this matter. CAWC submitted the requested information to MCHD and advised MCHD that, based on the analysis performed, it appears that some of the residual wastes from the Ambler Park and Toro plants, as well as a third plant (Ryan Ranch), may have exceeded California hazardous waste soluble threshold limit concentration requirements and should therefore have not been disposed of at the non-hazardous waste disposal facilities to which they were transported. CAWC further advised MCHD that, in light of the findings, CAWC modified its procedures to insure that wastes transported for disposal are properly characterized and managed. CAWC similarly determined and self-reported to the Sacramento County Environmental Management Department ("SCEMD") that it may have improperly disposed of arsenic residuals from its Isleton treatment plant before July 2013.

By letter dated November 6, 2013, the Monterey County District Attorney advised CAWC that it had received a report from the MCHD that CAWC had transported and disposed such hazardous wastes in violation of applicable provisions of the California Health and Safety Code and the California Business and Professions Code. Violators of the Health and Safety Code and the Business and Professions Code are subject to liabilities of $25,000 per violation and $2,500 per violation, respectively. On November 20, 2013, CAWC met with the District Attorney to discuss the matter. The District Attorney has not indicated whether enforcement action will be taken. Similarly, CAWC continues to discuss the matter related to the Isleton treatment palnt with the SCEMD, which also has not indicated whether enforcement action will be taken. The Company is unable to predict the outcome of this matter.

West Virginia Elk River Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglocol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection ("DEP"), (Freedom Industries first notified DEP on January 21, 2014 that PPH was also leaked), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order to approximately 300,000 people in parts of nine West Virginia counties. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention ("CDC") and U.S. Environmental Protection Agency indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals are at non-detectable levels remained in place. In addition, based on re-analysis of previously saved samples, PPH was no longer detected at any sampling locations as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM are below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC is continuing sampling and testing in an effort to pinpoint its flushing activities and address odor issues.

To date, an aggregate of 50 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia, and West Virginia Circuit Courts in Kanawha, Boone, and Putman counties. Many of these lawsuits also name Freedom Industries (which is now in bankruptcy), and a few also name the Company or other Company affiliates. The plaintiffs include local businesses, individuals and a Putnam County municipality. The complaints generally seek class action status; raise claims based on a variety of tort, statutory and contract theories; and seek a combination of compensatory damages, punitive damages, medical monitoring, and other equitable relief. Frequently cited causes of action include negligence, nuisance, trespass, strict liability, and violation of the West Virginia Consumer Credit and Protection Act. Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney's Office for the Southern District of West Virginia, the West Virginia Attorney General, and other governmental entities.

The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since April 23, 2008, our common stock has traded on the NYSE under the symbol “AWK.” As of February 20, 2014, there were 178,722,663 shares of common stock outstanding and approximately 1,800 record holders of common stock.

The following table sets forth the per-share range of the high and low closing sales prices of our common stock as reported on the NYSE and the cash dividends paid and declared per share for the years ended December 31, 2013 and 2012.

	2013					2012				
	First Quarter*	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Dividends paid per common share	$ 0.00	$ 0.28	$ 0.28	$ 0.28	$ 0.84	$ 0.23	$ 0.23	$ 0.25	$ 0.50	$ 1.21
Dividend declared per common share	$ 0.00	$ 0.28	$ 0.56	$ 0.28	$ 1.12	$ 0.23	$ 0.25	$ 0.25	$ 0.25	$ 0.98
Price range of common stock										
—High	$ 41.44	$ 42.74	$ 43.50	$ 43.49	$ 43.50	$ 34.47	$ 34.95	$ 38.35	$ 38.17	$ 38.35
—Low	$ 37.33	$ 39.40	$ 39.90	$ 39.13	$ 37.33	$ 31.38	$ 33.01	$ 34.67	$ 36.20	$ 31.38

*The dividend that would have normally been paid in the first quarter of 2013 was paid on December 28, 2012 to allow shareholders to take advantage of the existing 2012 tax rates.

For information on securities authorized for issuance under our equity compensation see Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of operations data:					
Operating revenues	$ 2,901,858	$ 2,876,889	$ 2,666,236	$ 2,555,035	$ 2,290,446
Goodwill impairment charges	—	—	—	—	$ 428,036
Operating income (loss)	$ 945,849	$ 924,973	$ 803,136	$ 728,122	$ 183,835
Income (loss) from continuing operations	$ 369,264	$ 374,250	$ 304,929	$ 255,072	$ (219,998)
Income (loss) from continuing operations per basic common share (1)	$ 2.08	$ 2.12	$ 1.74	$ 1.46	$ (1.31)
Income (loss) from continuing operations per diluted common share (1)	$ 2.06	$ 2.11	$ 1.73	$ 1.46	$ (1.31)

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Cash and cash equivalents	$ 26,964	$ 24,433	$ 14,207	$ 13,112	$ 22,256
Utility plant and property, net of depreciation	$ 12,244,359	$ 11,584,944	$ 10,872,042	$ 10,241,342	$ 9,708,885
Total assets	$ 15,069,533	$ 14,718,976	$ 14,776,391	$ 14,086,246	$ 13,459,368
Short-term and long-term debt	$ 5,855,712	$ 5,574,763	$ 5,882,956	$ 5,658,473	$ 5,434,463
Redeemable preferred stock	$ 18,827	$ 20,511	$ 22,036	$ 22,794	$ 23,011
Total debt and redeemable preferred stock	$ 5,874,539	$ 5,595,274	$ 5,904,992	$ 5,681,267	$ 5,457,474
Common stockholders' equity	$ 4,727,804	$ 4,443,268	$ 4,235,837	$ 4,127,725	$ 4,000,859
Preferred Stock without mandatory redemption requirements	—	$ 1,720	$ 4,547	$ 4,547	$ 4,557
Total stockholders' equity	$ 4,727,804	$ 4,444,988	$ 4,240,384	$ 4,132,272	$ 4,005,416

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Other data:					
Cash flows provided by (used in):					
Operating activities	$ 896,162	$ 955,598	$ 808,357	$ 774,933	$ 596,156
Investing activities (2)	$ (1,053,294)	$ (382,356)	$ (912,397)	$ (746,743)	$ (703,611)
Financing activities (2)	$ 159,663	$ (563,016)	$ 105,135	$ (37,334)	$ 120,169
Construction expenditures, included in investing activities	$ (980,252)	$ (928,574)	$ (924,858)	$ (765,636)	$ (785,265)
Dividends paid per common share (3)	$ 0.84	$ 1.21	$ 0.90	$ 0.86	$ 0.82
Dividends declared per common share (4)	$ 1.12	$ 0.98	$ 1.13	$ 0.86	$ 0.82

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(1) For the year ended December 31, 2009, there are no dilutive incremental common shares included in diluted earnings per share as all potentially dilutive instruments would be anti-dilutive.

(2) The amount for the year ended December 31, 2012 includes net proceeds from the sale of our Arizona, New Mexico and Ohio subsidiaries of approximately $561 million, with the majority of it used to pay down short-term debt. For further information, see "Item 7- Management Discussion and Analysis- Consolidated Results of Operations."

(3) 2012 includes one additional dividend payment of $0.25 per common share paid on December 28, 2012 to all shareholders of record as of December 20, 2012 to allow them to take advantage of the existing 2012 tax rates.

(4) Included in 2011 was a change in the timing of dividend declarations. As a result, five dividend declarations were made during 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the financial statements and the notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-K should be read as applying to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors" and elsewhere in this Form 10-K. You should read "Risk Factors" and "Forward-Looking Statements."

Executive Overview

General

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our approximately 6, 600 employees provide drinking water, wastewater and other water related services to an estimated 14 million people in more than 40 states and in two Canadian provinces. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses provide services in 16 states and serve approximately 3.2 million customers based on the number of active service connections to our water and wastewater networks. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment. As noted under "Business Section," our financial condition and results of operations are influenced by a variety of industry-wide factors, including but not limited to (i) economic utility regulation; (ii) economic environment; (iii) the need for infrastructure investment; (iv) an overall trend of declining water usage per customer; (v) weather and seasonality; and (vi) access to and quality of water supply.

In 2013, we continued the execution of our strategic goals. Our commitment to operational excellence led to continued improvement in our regulated operating efficiency, improved performance of our Market-Based Operations, and enabled us to provide increased value to our customers and investors. During the year, we focused on addressing regulatory lag, made more efficient use of capital and improved our regulated operation and maintenance ("O&M") efficiency ratio. Also, in 2013, we expanded both our Regulated Businesses and Market-Based Operations.

2013 Financial Results

For the year ended December 31, 2013, we continued to increase our net income, while continuing to make significant capital investment in our infrastructure and implementing operational efficiency improvements necessary to offset increases in depreciation and general taxes. Aided by rate increases, lower O&M and despite the unfavorable weather conditions in the second and third quarters of 2013, we generated $2,901.9 million in total operating revenue, and $369.3 million in net income, or diluted earnings per share ("EPS") of $2.06 compared to total operating revenue of $2,876.9 million, and $358.1 million in net income in 2012, or diluted EPS of $2.01. Net income from continuing operations was $369.3 million for the year ended December 31, 2013 compared to net income from continuing operations of $374.3 million for the year ended December 31, 2012. Net income and net income from continuing operations for 2013 included an after-tax charge of $24.8 million, or diluted EPS of $0.14 that was recorded in the fourth quarter to effect a tender offer that we announced in September of 2013. Diluted earnings from continuing operations per average common share was $2.06 for the year ended December 31, 2013 as compared to $2.11 for year ended December 31, 2012.

See “Consolidated Results of Operations and Variances” and “Segment Results” below for further detailed discussion of the consolidated results of operations, as well as our business segments. Also, note that all financial information in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) reflects only continuing operations. In 2011, as part of our portfolio optimization initiative, we entered into agreements to sell our regulated subsidiaries in Arizona, New Mexico, Ohio and our regulated water and wastewater systems in Texas. The sale of our Texas subsidiary’s assets was completed in June 2011, while the sales of our regulated subsidiaries in Arizona, New Mexico and Ohio were completed during 2012. Additionally, on December 13, 2011, we completed the sale of Applied Water Management, Inc. which was part of our Contract Operations line of business within our Market-Based segment. Therefore, the financial results of all of these entities have been presented as discontinued operations for all periods, unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

Addressing Regulatory Lag

In 2013, we received authorizations for additional annualized revenues from general rate cases, totaling $ 41.4 million. During 2013, rate cases were approved for our Kentucky, West Virginia and Pennsylvania subsidiaries. Also, in 2013, we were granted $36.1 million in additional annualized revenues, assuming constant sales volume, from infrastructure charges in several of our states.

On April 30, 2013, we filed a general rate case in our Iowa subsidiary requesting additional annualized revenues of $6.4 million. On May 10, 2013, interim rates of $2.7 million in annualized revenues were approved and put into effect as interim rates under bond and subject to refund. On February 4, 2014, the Iowa Utilities Board (IUB) held a verbal decision meeting that would allow our Iowa subsidiary a permanent annual base ra te increase of $3.9 million. The rate change would not become the final and binding decision of the IUB until its written decision is issued on or before February 28, 2014. The IUB does have the discretion to alter or reverse its position on the verbal decision in the final written order thus the permanent annual base rate increase of $3.9 million may be adjusted. If the verbal IUB decision is confirmed by final written order after taking into account the interim increase of $2.7 million such an award would result in an additional $1.2 million over revenue generated by interim rates.

On January 24, 2014, we filed a general rate case in Indiana requesting additional annualized revenues of $19.6 million. The rate case filing is using a fully forecasted test year for the first time.

On January 1, 2014, additional annualized revenues of $0.9 million, $10.1 million and $2.1 million resulting from infrastructure charges in our New York, New Jersey and Illinois subsidiaries became effective. On January 17, 2014 and January 31, 2013 we filed for additional annualized revenue of $0.7 million and $0.2 million, respectively, from infrastructure charges in our New York subsidiary. On February 25, 2014 our Missouri subsidiary filed for additional revenues from infrastructure charges in the amount of $3.1 million.

Other regulatory activities occurring in 2013 that allow us to address regulatory lag include our Tennessee subsidiary which on October 4, 2013 filed for approval of a Qualified Infrastructure Investment Program Rider, an Economic Development Investment Rider and a Safety and Environmental Compliance Rider totaling $0.5 million. Our Tennessee subsidiary is also filing for approval of a Production Costs and Other Pass-Throughs mechanism which cover over or under collection of authorized expenses for purchased power, chemicals, waste disposal, purchased water including wheeling charges, and the Tennessee Regulatory Authority inspection fee. This petition is pending regulatory approval. Our Missouri subsidiary proposed a rule addressing an Environmental Cost Adjustment Mechanism to pass through expenses and capital costs of mandated environmental compliance measures by a utility. The rulemaking was unanimously approved by the Public Service Commission on April 4, 2013. It was adopted on January 3, 2014 and will become effective 30 days after publication in the Code of State Regulations.

As of February 25, 2014, we are awaiting final orders in three states requesting additional annualized revenue of approximately $58.4 million.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our O&M efficiency ratio during 2013. Our O&M efficiency ratio was 38.7% for the year ended December 31, 2013 compared to 40.1% and 42.4% for the years ended December 31, 2012 and 2011, respectively. Our O&M efficiency ratio (a non-GAAP measure) is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also exclude from the O&M expense the allocable portion of non-O&M support services cost, mainly depreciation and general taxes, that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other lines in the Statement of Operations. Management believes that this calculation better reflects the Regulated Businesses segment’s O&M efficiency ratio. We evaluate our operating performance using this measure, as it is the primary measure of the efficiency of our regulated operations. This information is intended to enhance an investor’s overall understanding of our operating performance. O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies’ operating measures or deemed more useful than the GAAP information provided elsewhere in this report. The following table provides a reconciliation between operation and maintenance expense and operating revenues, as determined in accordance with GAAP, and to those amounts utilized in the calculation of our O&M efficiency ratio for the years ended December 31, 2013, 2012 and 2011:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure)

	For the Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Total O&M expense	$ 1,312,724	$ 1,350,040	$ 1,301,794
Less:			
O&M expense—Market-Based Operations	264,253	276,809	278,375
O&M expense—Other	(56,973)	(56,755)	(69,192)
Total Regulated O&M expense	1,105,444	1,129,986	1,092,611
Less:			
Regulated purchased water expense	111,119	110,173	99,008
Allocation of internal O&M costs	34,635	35,067	30,590
Adjusted Regulated O&M expense (a)	$ 959,690	$ 984,746	$ 963,013
Total Operating Revenues	$ 2,901,858	$ 2,876,889	$ 2,666,236
Less:			
Operating revenues—Market-Based Operations	325,463	330,329	327,815
Operating revenues—Other	(17,523)	(17,874)	(30,470)
Total Regulated operating revenues	2,593,918	2,564,434	2,368,891
Less: Regulated purchased water expense*	111,119	110,173	99,008
Adjusted Regulated operating revenues (b)	$ 2,482,799	$ 2,454,261	$ 2,269,883
Regulated O&M efficiency ratio (a)/(b)	38.7%	40.1%	42.4%

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* Note calculation assumes purchased water revenues approximate purchased water expenses.

Making Efficient Use of Capital

We invested approximately $950 million and $983 million in Company-funded capital improvements in 2013 and 2012, respectively. These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth and ensure system reliability, security and quality of service. The need for continuous investment presents a challenge due to the potential for regulatory lag, or the delay in recovering our operating expenses and earning an appropriate rate of return on our invested capital and obtaining a return of our invested capital. In conjunction with our capital investment program, management continued its focus on reducing regulatory lag during 2013.

In May 2013, we implemented the first wave of Phase II of our business transformation project in certain of our regulated subsidiaries. In October 2013, we implemented Phase II in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which will manage an asset's lifecycle, and a Customer Information System, which will contain all billing and data pertaining to American Water's customers for our Regulated segment. With the final implementation of Phase II in October 2013, our business transformation project was substantially complete at December 31, 2013. Through December 31, 2013, we have spent $322.8 million, including AFUDC, on this business transformation project with $65.8 million of that amount spent in 2013.

Expanding Markets and Developing New Offerings

During 2013, our Regulated Business completed the purchase of ten water systems and five wastewater systems. These acquisitions added approximately 30,000 customers to our regulated operations. The largest of these acquisitions was the acquisition of Dale Service Corporation ("Dale") by our Virginia subsidiary on November 14, 2013. The service area of Dale overlapped with Virginia American Water's existing water service in Prince William County. With the Dale acquisition, we added approximately 20,100 wastewater customers to our existing customer base. Also, during 2013, our Market-Based Operations, through our Homeowner Services Group ("HOS") expanded its water and sewer line protection programs into 10 additional states and Washington, D.C.

In January, 2014, our Military Services Group, part of our Contract Operations Group within the Market-Based Operations was awarded a contract for ownership, operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. According to the agreement the award is estimated at approximately $288 million over a 50-year period. We have begun the transition of the facility, which will be fully transitioned to us by September 1, 2014, when we will commence our operations of the facility under the contract. Also, in January 2014, HOS announced that it has expanded its water line and sewer line protection programs into three additional states, Maine, Minnesota and Oklahoma.

Other matters

West Virginia Event

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant in Charleston, West Virginia. After having been alerted to the leak by the DEP, WVAWC took immediate steps to gather more information about the chemical, augment its treatment as a precaution, and begin consultations with federal, state, and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the chemical, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a “Do Not Use” order to approximately 300,000 people in parts of nine West Virginia counties. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention (CDC) and U.S. Environmental Protection Agency indicated would be protective of public health. Based on the results of continued testing, the Do Not Use order was lifted in stages, beginning on January 13, 2014. By January 18th, none of WVAWC’s customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals are at non-detectable levels remained in place. In addition, based on re-analysis of previously saved samples, PPH was no longer detected at any sampling locations as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM are below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the “non-detect” level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC is continuing sampling and testing in an effort to pinpoint its flushing activities and address odor issues.

To date, an aggregate of 50 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia, and West Virginia Circuit Courts in Kanawha, Boone, and Putman counties, many of which also name Freedom Industries (which is now in bankruptcy) and a few also name the Company or other Company affiliates. The complaints generally seek class action status; raise claims based on a variety of tort, statutory and contract theories; and seek a combination of compensatory damages, punitive damages, medical monitoring, and other equitable relief. Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney’s Office for the Southern District of West Virginia, the West Virginia Attorney General, and other governmental entities.

The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, the WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

National Benefits Agreement

In September 2010, we declared “impasse” in negotiations of our national benefits agreement with most of the labor unions representing employees in our Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. We implemented our “last, best and final” offer on January 1, 2011 in order to provide health care coverage for our employees in accordance with the terms of the offer. The unions have challenged our right to implement our last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the NLRB issued a complaint against us in January 2012, claiming that we implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor. We have asserted that we did, in fact, provide sufficient notice.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although we did provide sufficient notification to the Federal Mediation and Conciliation Service, we did not provide notice to state agencies, in violation of the National Labor Relations Act. The Administrative Law Judge ordered, among other things, that we cease and desist from implementing the terms of our last, best and final offer and make whole all affected employees for losses suffered as a result of our implementation of our last, best and final offer. The “make whole” order, if upheld on appeal, would require us to provide back-pay plus interest, from January 1, 2011 through the date of the final determination by the NLRB. Based on current estimates and assumptions, we estimate the cash impact could be in the range of $3.5 to $4.5 million per year, with the total impact dependent on the length of time the issue remains unresolved. On November 2012, we filed an exception to the decision of the Administrative Law Judge in order to obtain a review by the full NLRB. We expect to hear from the NLRB during 2014.

2014 and Beyond

Our strategy for the future will continue to focus on customer satisfaction and service , expansion through targeted growth, environmental sustainability, and constructive regulatory and public policy. We will also continue to modernize our infrastructure and to focus on operational efficiencies, while bolstering a culture of continuous improvement.

For 2014 and beyond, we expect our earnings growth drivers to be 1) our Regulated Business investment; 2) growth from acquisitions; 3) growth in Market-Based businesses; and lastly 4) potential growth opportunities in serving the shale industry. Also, in 2014, we anticipate savings from corporate expense reductions attributable to lower SAP-related implementation costs, lower pension costs, further reduced headcount and lower interest expense resulting from our 2013 debt refinancings.

In 2014, we will continue to concentrate on our customers by achieving established customer satisfaction and service quality targets. In regards to environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage. Specific goals established for 2014 are to:

1) Optimize capital spend
2) Continue to promote constructive regulatory frameworks
3) Improve our O&M efficiency ratio
4) Execute our regulated acquisition strategy; and
5) Continue to grow our Market-Based Operations.

We will optimize our capital spend by not only focusing on how much we spend but the efficiency with which we spend it. We estimate our capital expenditure plan for 2014 through 2018 will be approximately $5.8 billion. Of the $5.8 billion, $5.1 million is expected to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period for acquisitions and strategic capital of approximately $400 million and $300 million, respectively. Strategic investments could include opportunities in the unregulated shale arena or a major concession. Our total capital plan for 2014 is estimated to be approximately $1.1 billion with approximately $900 million allocated to upgrading our infrastructure and systems, $100 million for acquisitions and $100 million for strategic investment purposes.

We will engage in appropriate legislative and regulatory policy changes by actively addressing regulatory lag that impacts return on our investments and promoting constructive regulatory frameworks. We expect to resolve three rate proceedings during 2014 and plan to file up to five general rate cases, including one which was already filed in January 2014. Additionally, we will file for infrastructure surcharges and continue to pursue other mechanisms, either as part of our general rate case filings or in separate filings, which will provide opportunities to expedite the return of capital outside of the general rate case and continue to close the gap between our allowed and our earned regulated return.

We also expect to continue to improve our regulated O&M efficiency ratio. We expect to achieve an O&M efficiency ratio equal to or below 35% by 2018. A significant component in both the optimization of capital spend and O&M efficiency objectives is to optimize our supply chain process to provide more value for each dollar of capital and O&M spent.

Lastly, we will look to execute our regulated acquisition strategy and continue to grow our Market-Based Operations, in particular HOS and our military services contracts, while evaluating potential opportunities to assist the shale industry in the delivery of water to assist with their processes. We will expand our Regulated Business segment through focused acquisitions and/or organic growth, while expanding in our Market-Based segment from new core growth, expanded markets and new offerings. In regards to our Market-Based Operations, as noted above, in early January 2014, we added the Hill Air Force Base to our military contracts and have expanded our HOS service line protection programs into three additional states. We are committed to operating our business responsibly and managing our operating and capital costs in a manner that serves our customers and produces value for our shareholders. We are committed to an ongoing strategy that leverages processes and technology innovation to make ourselves more effective and efficient.

Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the years ended December 31, 2013, 2012 and 2011:

	Years ended December 31,		
	2013	2012	2011
Operating revenues	$ 2,901,858	$ 2,876,889	$ 2,666,236
Operating expenses			
Operation and maintenance	1,312,724	1,350,040	1,301,794
Depreciation and amortization	407,718	381,503	351,821
General taxes	234,642	221,212	210,478
(Gain) loss on asset dispositions and purchases	925	(839)	(993)
Total operating expenses, net	1,956,009	1,951,916	1,863,100
Operating income	945,849	924,973	803,136
Other income (expenses)			
Interest, net	(308,164)	(310,794)	(312,415)
Loss on extinguishment of debt	(40,583)	—	—
Allowance for other funds used during construction	12,639	15,592	13,131
Allowance for borrowed funds used during construction	6,377	7,771	5,923
Amortization of debt expense	(6,603)	(5,358)	(5,055)
Other, net	(4,045)	(926)	(1,040)
Total other income (expenses)	(340,379)	(293,715)	(299,456)
Income from continuing operations before income taxes	605,470	631,258	503,680
Provision for income taxes	236,206	257,008	198,751
Income from continuing operations	369,264	374,250	304,929
Income (loss) from discontinued operations	—	(16,180)	4,684
Net income	$ 369,264	$ 358,070	$ 309,613
Basic earnings per share (a)			
Income from continuing operations	$ 2.08	$ 2.12	$ 1.74
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.08	$ 2.03	$ 1.76
Diluted earnings per share (a)			
Income from continuing operations	$ 2.06	$ 2.11	$ 1.73
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.06	$ 2.01	$ 1.75
Average common shares outstanding during the period			
Basic	177,814	176,445	175,484
Diluted	179,056	177,671	176,531
Dividends per common share	$ 1.12	$ 0.98	$ 1.13

(a) Amounts may not sum due to rounding.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Consolidated operating revenues for the year ended December 31, 2013 increased $ 25.0 million, or 0.9%, compared to the same period in 2012. This increase is the result of higher revenues in our Regulated Businesses of $29.5 million, which was mainly attributable to rate increases partially offset by decreased consumption, primarily related to weather. For further information see the respective “Operating Revenues” discussions within the “Segment Results.”

***Operation and maintenance*.** Consolidated operation and maintenance expense for the year ended December 31, 2013 decreased $37.3 million, or 2.8%, compared to 2012. This change was mainly attributable to a $24.5 million decrease in our Regulated Businesses’ costs primarily related to a decrease in employee-related costs, primarily pension and group insurance expense as well as lower preventive maintenance expenses. For further information see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $26.2 million, or 6.9%, for the year ended December 31, 2013 compared to the same period in the prior year as a result of additional utility plant placed in service including our business transformation project, which accounted for $10.8 million of the incremental expense in 2013.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by $ 13.4 million, or 6.1%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. This increase was principally due to incremental taxes in the first half of 2013 associated with the properties acquired in our New York acquisition in the second quarter of 2012. Also, 2012 property taxes were lower due to the recognition of credit adjustments in Indiana and Missouri which reduced property tax expense in the third quarter of 2012. Lastly, gross receipts taxes were higher in our New Jersey subsidiary by $3.5 million.

Other income (expenses). Other expenses increased $46.7 million, or 15.9%, for the year ended December 31, 2013 compared to the same period in the prior year. This increase is principally attributable to the recognition of a pre-tax loss on debt extinguishment of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. The loss consisted of a repurchase premium of $39.4 million, transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. Also contributing to the increase was a reduction in allowance for funds used during construction ("AFUDC") of $4.3 million resulting from decreased construction activities, compared to the same period in 2012, including the winding down of our business transformation project.

Provision for income taxes. Our consolidated provision for income taxes decreased $20.8 million, or 8.1%, to $236.2 million for the year ended December 31, 2013. The effective tax rates for the years ended December 31, 2013 and 2012 were 39.0% and 40.7%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Income (loss) from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2012 and 2011

Operating revenues. Consolidated operating revenues for the year ended December 31, 2012 increased $210.7 million, or 7.9%, compared to the same period in 2011. This increase is the result of higher revenues in our Regulated Businesses of $195.5 million, which was mainly attributable to rate increases and increased sales volumes, primarily related to weather. For further information see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2012 increased $48.2 million, or 3.7%, compared to 2011. This change was mainly attributable to a $37.4 million increase in our Regulated Businesses costs primarily related to an increase in production costs of approximately $12.2 million to support higher customer demand as well as incremental contracted services costs attributable to various projects in support of improving processes and operating efficiency and effectiveness, including the support of the go-live of our Enterprise Resource Planning system, and the use of temporary labor to backfill positions, including those positions vacated by employees assigned to our business transformation project. Also, contributing to the increase was a $7.0 million contribution made in 2012 to the American Water Charitable Foundation, a 501(c)(3) organization. For further information see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $29.7 million, or 8.4%, for the year ended December 31, 2012 compared to the same period in the prior year as a result of additional utility plant placed in service.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by $10.7 million, or 5.1%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. This increase was principally due to higher property taxes of $7.3 million, most of which is the result of incremental taxes associated with our New York acquisition.

Other income (expenses). Other expenses decreased $5.7 million, or 1.9%, for the year ended December 31, 2012 compared to the same period in the prior year. This decrease is attributable to an increase in AFUDC of $4.3 million resulting from increased construction activity, including our business transformation project and a decrease in interest expense, net of interest income of $1.6 million.

Provision for income taxes. Our consolidated provision for income taxes increased $58.3 million, or 29.3%, to $257.0 million for the year ended December 31, 2012. The effective tax rates for the years ended December 31, 2012 and 2011 were 40.7% and 39.5%, respectively. The rate for the twelve months ended December 31, 2011 includes a $4.5 million tax benefit related to one of our operating companies contributing non-utility property to a county authority within its operating area.

Income (loss) from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries. The 2011 income amount reflects the operations for the discontinued subsidiaries and an after-tax benefit of $15.1 million related to the cessation of depreciation for our Arizona, New Mexico, and Texas subsidiaries. Under GAAP, operations that are considered discontinued cease to depreciate their assets. Partially offsetting the 2011 income from discontinued operations, net of tax amount was $25.1 million after tax write-downs recorded in 2011 to reduce the net asset values of certain of our discontinued operations.

Segment Results of Operations

We have two operating segments, which are also our reportable segments: the Regulated Businesses and the Market-Based Operations. These segments are determined based on how we assess performance and allocate resources. We evaluate the performance of our segments and allocated resources based on several factors, with the primary measure being income from continuing operations before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Operating revenues	$ 2,593,918	$ 2,564,434	$ 2,368,891
Operation and maintenance expense	1,105,444	1,129,986	1,092,611
Operating expenses, net	1,700,052	1,685,734	1,609,276
Income from continuing operations before income taxes	654,834	649,117	535,445

Operating Revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is subject to state regulation and our results of operations can be impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate. The table below details additional annualized revenues awarded, including step increases and assuming a constant volume, resulting from rate authorizations granted in 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	2012	2011
		(in millions)	
State			
General Rate Cases:			
Pennsylvania (1)	$ 26.0	$ —	$ 62.1
New Jersey	—	30.0	—
Kentucky (2)	6.9	—	—
Missouri	—	24.0	—
Illinois	—	17.9	—
Indiana	—	1.9	—
California (3)	3.5	32.9	—
West Virginia (4)	8.5		5.1
Virginia(5)	—	2.6	4.8
Tennessee	—	5.2	5.6
Iowa	—	2.8	—
New York(6)	—	5.6	—
Other	0.1	0.2	1.2
Total—General Rate Cases	$ 45.0	$ 123.1	$ 78.8

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(1) On December 19, 2013, a rate case settlement was approved with an effective date of January 1, 2014. This rate increase combined, in part, wastewater and water rates.

(2) Final order was received on October 25, 2013. The increase approximated the interim rates, net of the reserve that had been recorded since July 27, 2013.

(3) Second step increase from the 2012 rate case became effective on April 1, 2013.

(4) Final order issued on September 26, 2013 by the West Virginia Public Service Commission. New rates were put into effect October 11, 2013.

(5) The new rates provided additional annualized revenue of $2.3 million in 2012 and $4.3 million in 2011 for jurisdictional customers, and $0.3 million in 2013 and $0.5 million in 2011 for non-jurisdictional customers, which are not subject to commission approval.

(6) Amount includes a $3.0 million increase effective April 1, 2012, with the remainder of $1.4 million and $1.2 million becoming effective April 1, 2013 and April 1, 2014, respectively.

The effective dates for the more significant increases granted in 2012 were January 1, 2012, April 1, 2012, May 1, 2012 and October 1, 2012 for our California, Missouri, New Jersey, and Illinois subsidiaries, respectively. The effective date for the 2011 Pennsylvania rate increase was November 11, 2011. The 2011 increase in Virginia was effective in March 2011 while the Tennessee and West Virginia increases were effective in April 2011.

As previously noted, an increasing number of states are permitting rates to be adjusted outside of a general rate case for certain costs, such as mechanisms that permit a return on capital investments to replace aging infrastructure. The following table details additional annualized revenue authorized through infrastructure surcharge mechanisms which were granted in 2013, 2012 and 2011. As these surcharges are typically rolled into the new base rates and therefore are reset to zero when new base rates are effective, certain of these charges may also be reflected in the total general rate case amounts awarded in the table above if the order date was following the infrastructure surcharge filing date:

	Years Ended December 31,		
	2013	2012	2011
		(in millions)	
Infrastructure Charges:			
Pennsylvania (1)	$ 19.8	$ 10.5	$ 16.4
New Jersey (2)	4.0	—	—
Missouri (3)	7.9	4.2	5.8
Indiana (4)	3.9	3.7	—
Illinois (5)	0.5	—	3.7
Other	—	—	0.3
Total—Infrastructure Charges	$ 36.1	$ 18.4	$ 26.2

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(1) Quarterly filings made with PUC. $6.7 million, $3.7 million, $2.9 million and $6.5 million effective October 1, 2013, July 1, 2013, April 1, 2013 and January 1, 2013, respectively.
(2) Effective July 1, 2013.
(3) $5.4 million effective June 21, 2013 and $2.5 million effective December 14, 2013.
(4) Effective December 18, 2013.
(5) Effective October 1, 2013.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues increased by $29.5 million, or 1.1%, for the year ended December 31, 2013 compared to the same period in 2012. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $72.4 million. Additionally revenues increased by $16.4 million due to increased surcharge and amortization of balancing accounts. Lastly, revenues were higher by $9.9 million as a result of acquisitions, with the most significant being the result of our New York acquisition in the second quarter of 2012 (additional four months of revenue in 2013 compared to 2012) and the acquisition of Dale by our Virginia subsidiary in the fourth quarter of 2013. These increases were partially offset by decreased revenues of approximately $64.5 million as a result of lower demand, principally driven by the hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler and wetter weather conditions in 2013.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$ 1,465,174	$ 1,465,803	$ (629)	(0.0%)	180,976	188,927	(7,951)	(4.2%)
Commercial	520,875	518,253	2,622	0.5%	80,392	84,226	(3,834)	(4.6%)
Industrial	118,939	121,902	(2,963)	(2.4%)	37,107	39,429	(2,322)	(5.9%)
Public and other	211,591	212,289	(698)	(0.3%)	51,009	54,202	(3,193)	(5.9%)
Other water revenues	118,323	120,988	(2,665)	(2.2%)	—	—	—	—
Billed water services	2,434,902	2,439,235	(4,333)	(0.2%)	349,484	366,784	(17,300)	(4.7%)
Unbilled water services	30,142	4,484	25,658	572.2%				
Total water revenues	2,465,044	2,443,719	21,325	0.9%				
Wastewater revenues	82,831	78,168	4,663	6.0%				
Other revenues	46,043	42,547	3,496	8.2%				
	$ 2,593,918	$ 2,564,434	$ 29,484	1.1%				

Water Services— Consistent with the above discussion, water service operating revenues for the year ended December 31, 2013 totaled $2,465.0 million, a $21.3 million increase, or 0.9%, over the same period of 2012. However, the mix between billed revenues/billed volumes to unbilled revenues/unbilled volumes have changed significantly principally as a result of our CIS implementation. Unbilled revenue has increased $25.7 million compared to the same period in the prior year mainly as a result of delayed invoicing to customers. With the implementation, we made a decision to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As such bills that exceed certain tolerance levels are being held until verification can be performed. As such, the timing of issuance of bills has caused a decrease in billed volumes in 2013 when compared to 2012, with a corresponding increase in unbilled usage. For our residential and commercial customers, we believe that the majority of the decline in billed volumes is attributable to the weather abnormalities between 2012 and 2013 as well as the implementation of our new CIS system by our regulated subsidiaries. For the remaining customer classes, we believe the decline in billed volumes is mainly due to the delay in invoicing the customer as a result of our CIS implementation.

Wastewater services— Our subsidiaries provide wastewater services in 10 states. Revenues from these services increased by $4.7 million, or 6.0%, to $82.8 million for the year ended December 31, 2013, from the same period of 2012. The increase was primarily attributable to rate increases in our Pennsylvania subsidiary as well as the Dale acquisition in November, 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $3.5 million, or 8.2%, compared to the year ended December 31, 2012. The increase in revenues for the year ended December 31, 2013 as compared to the same period in the prior year was mainly due to the additional surcharge revenues offset by decreases in revenues related to billings for others, reconnection and late fees.

Operation and maintenance. Operation and maintenance expense decreased $24.5 million, or 2.2%, for the year ended December 31, 2013, compared to the year ended December 31, 2012. Operation and maintenance expense for 2013 and 2012, by major expense category, were as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 271,181	$ 274,775	$ (3,594)	(1.3%)
Employee-related costs	455,690	472,075	(16,385)	(3.5%)
Operating supplies and services	215,702	210,947	4,755	2.3%
Maintenance materials and supplies	65,853	81,062	(15,209)	(18.8%)
Customer billing and accounting	52,625	49,257	3,368	6.8%
Other	44,393	41,870	2,523	6.0%
Total	$ 1,105,444	$ 1,129,986	$ (24,542)	(2.2%)

Production costs including fuel and power, purchased water, chemicals and waste disposal costs decreased by $3.6 million, or 1.3%, for 2013 compared to 2012. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$ 111,119	$ 110,173	$ 946	0.9%
Fuel and power	86,337	89,282	(2,945)	(3.3%)
Chemicals	47,901	49,334	(1,433)	(2.9%)
Waste disposal	25,824	25,986	(162)	(0.6%)
Total	$ 271,181	$ 274,775	$ (3,594)	(1.3%)

Overall, production costs decreased for the year ended December 31, 2013 compared to the prior year as a result of reduction in chemical and fuel and power costs resulting from decreased usage mainly attributable to lower consumption in most of our states.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $16.4 million, or 3.5%, for 2013 compared to 2012. These employee-related costs represented 41.2% and 41.8% of operation and maintenance expenses for 2013 and 2012, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$ 323,022	$ 326,370	$ (3,348)	(1.0%)
Pensions	48,374	56,299	(7,925)	(14.1%)
Group insurance	65,872	71,103	(5,231)	(7.4%)
Other benefits	18,422	18,303	119	0.7%
Total	$ 455,690	$ 472,075	$ (16,385)	(3.5%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was mainly the result of lower employee incentive and stock compensation expense of approximately $5.9 million in addition to higher capitalization rates, due to increased capital investment, and a reduction in headcount partially offset by increased overtime and annual wage increases. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. The reduction in group insurance expense is mainly attributable to higher capitalization rates and reduced headcount.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $ 4.8 million, or 2.3%, for the year ended December 31, 2013 compared to the same period in 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 93,744	$ 87,675	$ 6,069	6.9%
Office supplies and services	45,272	49,354	(4,082)	(8.3%)
Transportation	20,620	22,917	(2,297)	(10.0%)
Rents	15,830	16,943	(1,113)	(6.6%)
Other	40,236	34,058	6,178	18.1%
Total	$ 215,702	$ 210,947	$ 4,755	2.3%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. These increases were mainly due to incremental costs attributable to the continued maturity of our Enterprise Resource Planning system in conjunction with the implementation of Phase I and Phase II of our business transformation project. Additionally, contracted services increased due to the use of contractors for other specific projects. Other increases in the other operating supplies and services costs are related to a $1.3 million increase in condemnation costs and a $1.2 million increase in conservation expense as well as the inclusion in 2012 of a $1.0 million reduction in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy and a $2.1 million credit adjustment resulting from the finalization of rate decisions in California and are offset by $1.6 million of insurance proceeds related to recovery of expenses related to Hurricanes Irene and Sandy received in 2013. The decrease in office supplies and services due to cost containment efforts primarily related to employee travel. Transportation costs decreased due to the reduction of leased vehicles.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, decreased $15.2 million, or 18.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance services and supplies	$ 65,853	$ 81,062	$ (15,209)	(18.8%)

The decrease of $15.2 million in 2013 is mainly attributable to 2012 including increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $3.4 million, or 6.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$ 26,443	$ 22,541	$ 3,902	17.3 %
Postage	12,757	12,694	63	0.5 %
Other	13,425	14,022	(597)	(4.3 %)
Total	$ 52,625	$ 49,257	$ 3,368	6.8 %

The increase in the uncollectible accounts expense was primarily due to an increase in our Regulated Businesses' customer accounts receivable attributable to rate increases and an increase in the overall aging of receivables due to our CIS implementation.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $2.5 million, or 6.0%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$ 35,406	$ 31,883	$ 3,523	11.0%
Regulatory expenses	8,987	9,987	(1,000)	(10.0%)
Total	$ 44,393	$ 41,870	$ 2,523	6.0%

Insurance costs in 2013 were higher, compared to 2012, primarily due to higher casualty insurance costs as a result of historical claims experience and retroactive adjustments.

Operating expenses. The increase in operating expenses for the year ended December 31, 2013 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $26.3 million and higher general tax expense of $12.4 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including $10.8 million of incremental expense resulting from the assets placed in service for our business transformation project. The increase in general tax expense is primarily due to higher property taxes in our New York subsidiary due to a full year of expense in 2013 on properties acquired in the second quarter of 2012 of $5.2 million, the inclusion of property tax adjustments that reduced expense for our Indiana and Missouri subsidiaries by $4.0 million in 2012, and higher 2013 gross receipts taxes in our New Jersey subsidiary of $3.5 million.

Comparison of Results of Operations for the Years Ended December 31, 2012 and 2011

Operating revenues increased by $195.5 million, or 8.3%, for the year ended December 31, 2012 compared to the same period in 2011. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $128.7 million, and higher consumption in our mid-west and certain northeastern states in 2012 compared to 2011, which amounted to an increase of approximately $39.1 million. The increased consumption is primarily attributable to the warmer/drier weather in our mid-western and certain of our northeastern states in the second and third quarters of 2012. Lastly, revenues were higher by $26.7 million as a result of revenues from newly acquired systems, with the most significant being our New York acquisition in the second quarter of 2012.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2012	2011	Increase (Decrease)	Percentage	2012	2011	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$ 1,465,803	$ 1,338,671	$ 127,132	9.5%	188,927	180,916	8,011	4.4%
Commercial	518,253	473,904	44,349	9.4%	84,226	81,455	2,771	3.4%
Industrial	121,902	114,096	7,806	6.8%	39,429	39,295	134	0.3%
Public and other	212,289	206,290	5,999	2.9%	54,202	52,069	2,133	4.1%
Other water revenues	120,988	117,598	3,390	2.9%	—	—	—	—

Billed water services	2,439,235	2,250,559	188,676	8.4%	366,784	353,735	13,049	3.7%
Unbilled water services	4,484	2,030	2,454	120.9%				
Total water revenues	2,443,719	2,252,589	191,130	8.5%				
Wastewater revenues	78,168	76,301	1,867	2.4%				
Other revenues	42,547	40,001	2,546	6.4%				
	$ 2,564,434	$ 2,368,891	$ 195,543	8.3%				

The following discussion related to water services indicates the increase or decrease in the Regulated Businesses' revenues and associated billed water sales volumes in gallons by customer class.

Water Services—Water service operating revenues for the year ended December 31, 2012 totaled $ 2,443.7 million, a $191.1 million increase, or 8.5%, over the same period of 2011. Overall, the water services revenue increase is related to increases in all customer classes and is mainly due to rate increases as well as increased sales volume. The volume of water sold increased by 3.7% for the year ended December 31, 2012 to 366.8 billion gallons, from 353.7 billion gallons for the same period in 2011. We believe this higher consumption is attributable to the warmer/drier weather in our northeastern and mid-western operating states as compared to the prior year. Also contributing to the increased sales volume was the additional consumption resulting from our New York acquisition.

Wastewater services—Our subsidiaries provide wastewater services in nine states. Revenues from these services increased by $1.9 million, or 2.4%, to $78.2 million for the year ended December 31, 2012, from the same period of 2011. The increase was primarily attributable to rate increases in a number of our operating companies.

Other revenues—Other revenues include such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items. The increase in revenues for the year ended December 31, 2012 a s compared to the same period in the prior year was mainly due to the receipt of insurance proceeds related to business interruption for our Joplin, Missouri service area which was affected by tornados in 2011.

Operation and maintenance. Operation and maintenance expense increased $37.4 million, or 3.4%, for the year ended December 31, 2012, compared to the year ended December 31, 2011. Operation and maintenance expense for 2012 and 2011, by major expense category, were as follows:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 274,775	$ 262,563	$ 12,212	4.7%
Employee-related costs	472,075	489,836	(17,761)	(3.6%)
Operating supplies and services	210,947	187,215	23,732	12.7%
Maintenance materials and supplies	81,062	73,109	7,953	10.9%
Customer billing and accounting	49,257	42,722	6,535	15.3%
Other	41,870	37,166	4,704	12.7%
Total	$ 1,129,986	$ 1,092,611	$ 37,375	3.4%

Production costs including fuel and power, purchased water, chemicals and waste disposal costs increased by $12.2 million, or 4.7%, for 2012 compared to 2011. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$ 110,173	$ 99,008	$ 11,165	11.3%
Fuel and power	89,282	87,879	1,403	1.6%
Chemicals	49,334	48,354	980	2.0%
Waste disposal	25,986	27,322	(1,336)	(4.9%)
Total	$ 274,775	$ 262,563	$ 12,212	4.7%

Overall, production costs increased for the year ended December 31, 2012 compared to the prior year mainly as a result of increased purchased water costs, attributable to increased production resulting from higher consumption in most of our subsidiaries, with more significant increases occurring in our California and Illinois subsidiaries. For 2011, our California subsidiary's customer needs were met without the need for purchased water.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $17.8 million, or 3.6%, for 2012 compared to 2011. These employee-related costs represented 41.8% and 44.8% of operation and maintenance expenses for 2012 and 2011, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$ 326,370	$ 327,777	$ (1,407)	(0.4%)
Pensions	56,299	68,885	(12,586)	(18.3%)
Group insurance	71,103	75,120	(4,017)	(5.3%)
Other benefits	18,303	18,054	249	1.4%
Total	$ 472,075	$ 489,836	$ (17,761)	(3.6%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was primarily due to higher capitalization rates due to increased capital investment and a reduction in headcount as a result of organizational streamlining and vacancies, some of which have been back-filled with temporary labor and therefore included within contracted services in the operating supplies and services category below. Partially offsetting the decrease was higher costs resulting from wage increases, higher stock-based compensation expense as well as increased costs due to the addition of employees from our New York acquisition. The reduction in group insurance expense is mainly attributable to lower headcount as a result of vacancies, a decrease in the overall cost per person, as well as higher capitalization rates. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $23.7 million, or 12.7%, for the year ended December 31, 2012 compared to the same period in 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 87,675	$ 72,851	$ 14,824	20.3%
Office supplies and services	49,354	46,783	2,571	5.5%
Transportation	22,917	24,915	(1,998)	(8.0%)
Rents	16,943	15,619	1,324	8.5%
Other	34,058	27,047	7,011	25.9%
Total	$ 210,947	$ 187,215	$ 23,732	12.7%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. The contracted services increase was mainly due to incremental costs associated with the backfilling of positions, including those vacated by employees who are assigned to our business transformation project; the use of contractors for other specific projects, the intent of which is to improve processes and operating efficiency and effectiveness over the long-term; and lastly additional costs resulting from the roll-out and stabilization of our ERP in the third quarter of 2012. The increase in the other operating supplies and services costs is primarily related to the roll-out and stabilization of the ERP in addition to incremental expenses associated with our New York acquisition of $1.1 million, and an increase of $1.5 million for community relations and customer education in order to communicate the importance of water conservation. Additionally, 2011 included a reduction of $2.2 million for an anticipated insurance recovery of expenses incurred as a result of severe weather storms, in particular Hurricane Irene, which is partially offset by a reduction recorded in 2012 of $1.0 million in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy. Partially offsetting the increase in other operating supplies and services was a $2.1 million credit adjustment recorded in 2012 resulting from the finalization of rate decisions in California.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, increased $8.0 million, or 10.9%, for 2012 compared to 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance services and supplies	$ 81,062	$ 73,109	$ 7,953	10.9%

The increase of $8.0 million in 2012 is mainly attributable to increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $6.5 million, or 15.3%, for 2012 compared to 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Uncollectible accounts expense	$ 22,541	$ 16,074	$ 6,467	40.2%
Postage	12,694	12,382	312	2.5%
Other	14,022	14,266	(244)	(1.7%)
Total	$ 49,257	$ 42,722	$ 6,535	15.3%

The increase in the uncollectible accounts expense was mainly the result of a refinement to our allowance for uncollectible calculation based on more detailed data trends which were derived in conjunction with the development of our new Customer Information System.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $4.7 million, or 12.7%, for 2012 compared to 2011.

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Insurance	$ 31,883	$ 29,733	$ 2,150	7.2%
Regulatory expenses	9,987	7,433	2,554	34.4%
Total	$ 41,870	$ 37,166	$ 4,704	12.7%

Insurance costs were higher, compared to 2011, as 2012 insurance reflected incremental expense resulting from the resolution of prior years' claims. Regulatory expenses increased in 2012 as a result of the inclusion in 2011 of a deferral of previously expensed costs in one of our subsidiaries.

Operating expenses. The increase in operating expenses for the year ended December 31, 2012 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $28.1 million, resulting from additional utility plant placed in service, and increased general taxes of $10.0 million, principally attributable to higher property taxes relating to our New York acquisition.

Market-Based Operations Segment

The following table provides certain financial information for our Market-Based Operations segment for the periods indicated:

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Operating revenues	$ 325,463	$ 330,329	$ 327,815
Operation and maintenance expense	264,253	276,809	278,375
Operating expenses, net	277,691	288,099	290,768
Income from continuing operations before income taxes	50,637	45,817	39,324

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Revenues decreased $4.9 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to the lower revenues of $17.3 million resulting from termination of certain municipal and industrial operations and maintenance contracts, most of which occurred in 2012. Additionally, revenues from capital project activities associated with military construction decreased $8.4 million, due to lower levels of work as compared to the prior year. These decreases were offset by a net increase of $4.0 million from price redeterminations for several of our military contracts as well as an increase of $16.6 million in our HOS revenues associated with contract growth, most notably in New York City.

Operation and maintenance. Operation and maintenance expense decreased $ 12.6 million, or 4.5%, for the year ended December 31, 2013, compared to the year ended December 31, 2012.

The following table provides information regarding operation and maintenance expense for the years ended December 31, 2013, and 2012, by major expense category:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 38,943	$ 42,772	$ (3,829)	(9.0%)
Employee-related costs	67,042	71,002	(3,960)	(5.6%)
Operating supplies and services	111,755	117,749	(5,994)	(5.1%)
Maintenance materials and supplies	41,775	36,730	5,045	13.7%
Other	4,738	8,556	(3,818)	(44.6%)
Total	$ 264,253	$ 276,809	$ (12,556)	(4.5%)

As noted in the table above, decreases in operating supplies and services, production costs and employee-related costs were partially offset by an increase in maintenance materials and supplies. The decrease in production costs and employee-related costs is mostly due to the termination of certain municipal and industrial operations and maintenance contracts. The decrease in operating supplies and services is attributable to the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Additionally, 2013 was impacted by decreased construction activity for our military contracts and is partially offset by increased HOS contracted services expense as well as higher printing and postage costs associated with expanding into new markets, including New York City. The increase in maintenance materials and supplies is primarily due to higher HOS repair costs, which is attributable to new contracts, an increase in the number of claims, as well as the average cost per claim and is partially offset by the terminated municipal and industrial operations and maintenance contracts. The decrease in the other category is mainly due to decreases in uncollectible accounts expense of $3.5 million, which is due to 2012 including incremental amounts related to terminated contracts in addition to improved collection experience in 2013 for certain other municipal and industrial operations and maintenance contracts.

Operating expense. The decrease in operating expenses for the year ended December 31, 2013 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Income from continuing operations before income taxes. The $4.8 million increase for the year ended December 31, 2013, is the result of the aforementioned changes in operating revenues and operating and maintenance expense.

Comparison of Results of Operations for the Years Ended December 31, 2012 and 2011

Operating revenues. The increase in revenues for the year ended December 31, 2012, compared to the same period in 2011, is primarily attributable to an $8.0 million increase in our HOS revenues associated with continued contract growth and a price increase. Also contributing to the higher revenues was a $2.2 million increase in our Contract Operations Group revenues which is mainly due to incremental revenues associated with military construction and operation and maintenance projects. These increases were offset by decreases in our Carbon Services Group revenues of $6.0 million, as we are no longer providing these services to the Regulated Businesses, and a decrease in revenues in our Terratec business of $1.8 million.

Operation and maintenance. Operation and maintenance expense decreased $1.6 million, or 0.6%, for the year ended December 31, 2012, compared to the year ended December 31, 2011.

The following table provides information regarding operation and maintenance expense for the years ended December 31, 2012, and 2011, by major expense category:

	For the Years Ended December 31,			
	2012	2011	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 42,772	$ 47,897	$ (5,125)	(10.7%)
Employee-related costs	71,002	75,012	(4,010)	(5.3%)
Operating supplies and services	117,749	108,552	9,197	8.5%
Maintenance materials and supplies	36,730	38,568	(1,838)	(4.8%)
Other	8,556	8,346	210	2.5%
Total	$ 276,809	$ 278,375	$ (1,566)	(0.6%)

The increase in operating supplies and services is attributable to increased construction activity for our military contracts. In addition, 2011 included the release of a $2.2 million loss contract reserve due to the resolution of certain outstanding issues and uncertainties. Offsetting the increase in operating supplies and services are decreases in production, employee-related and maintenance costs which is the result of expired and terminated contracts. Additionally, operating supplies and services is lower due to lower Carbon Services Group expenses, which corresponds to its lower revenues.

Operating expense. The decrease in operating expenses for the year ended December 31, 2012 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Income from continuing operations before income taxes. The $6.5 million increase for the year ended December 31, 2012, is the result of the aforementioned changes in operating revenues and operating and maintenance expense.

Liquidity and Capital Resources

We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures. Our business is very capital intensive and requires significant capital resources. A majority of these capital resources are provided by internally generated cash flows from operations. When necessary, we obtain additional funds from external sources in the debt and equity capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general, as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to an unsecured revolving credit facility with aggregate bank commitments of $1.25 billion. We rely on this revolving credit facility and the capital markets to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. Disruptions in the credit markets may discourage lenders from extending the terms of such commitments or agreeing to new commitments. Market disruptions may also limit our ability to issue debt and equity securities in the capital markets. See "—Credit Facility and Short-Term Debt." In order to meet our short-term liquidity needs, we, through American Water Capital Corp. ("AWCC"), our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. AWCC had no outstanding borrowings and $41.8 million of outstanding letters of credit under its credit facility as of December 31, 2013. As of December 31, 2013, AWCC had $1.25 billion available under our credit facility that we could use to fulfill our short-term liquidity needs, to issue letters of credit and support our $630.3 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

In addition, our regulated operating companies receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from the rate base. Generally, we depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use our capital resources, including cash, to (i) fund operating and capital requirements, including construction expenditures, (ii) pay off maturing debt, (iii) pay dividends, (iv) fund pension and postretirement welfare obligations and (v) invest in new and existing ventures. We spend a significant amount of cash on construction projects that we expect to have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. See "Business—Regulation—Economic Regulation." We expect to fund future maturities of long-term debt through a combination of external debt and to the extent available cash flows from operations. Since we continue to make investments equal to or greater than our cash flows from operating activities, we have no plans to reduce debt significantly.

We believe that our ability to access the capital markets, our revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term requirements. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and to the extent necessary, our revolving credit facility. We believe we have sufficient liquidity and ability to manage our expenditures should there be a disruption of the capital and credit markets.

In addition, the Company can delay major capital investments or other funding requirements or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by, among other things, economic utility regulation; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; weather and seasonality; and overall economic conditions.

Cash flows from operating activities have been a reliable, steady source of funding, sufficient to meet operating requirements, make our dividend payments and fund a portion of our capital expenditure requirements. We will seek access to debt and equity capital markets to meet the balance of our capital expenditure requirements as needed. There can be no assurance that we will be able to access such markets successfully on favorable terms or at all. Operating cash flows can be negatively affected by changes in our rate regulated environments or changes in our customers' economic outlook and ability to pay for service in a timely manner. We can provide no assurance that our customers' historical payment pattern will continue in the future.

The following table provides a summary of the major items affecting our cash flows from operating activities for the periods indicated:

	For the Years Ended December 31, 2013	2012	2011
	(in thousands)		
Net income	$ 369,264	$ 358,070	$ 309,613
Add (subtract):			
Non-cash operating activities(1)	761,772	688,126	677,569
Changes in working capital(2)	(137,374)	38,812	7,905
Pension and postretirement healthcare contributions	(97,500)	(129,410)	(186,730)
Net cash flows provided by operations	$ 896,162	$ 955,598	$ 808,357

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(1) Includes, depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on utility accounts receivable, allowance for other funds used during construction, (gain) loss on sale of assets, and pension and non-pension post retirement benefits expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to accounts receivable and unbilled utility revenue, income taxes receivable, other current assets, accounts payable, taxes accrued (including income taxes), interest accrued and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address the timing issue through the aforementioned liquidity funding mechanisms. Our cash collections for our Regulated Businesses' accounts receivable has been slower than historical payment patterns, in particular for those operating companies in which we implemented the new CIS system in May 2013. We believe the slowdown in collections is the result of the system implementation and therefore is only temporary in nature. We implemented the CIS system in our remaining Regulated Businesses in October 2013 and we would expect to experience a similar slowdown in cash collections for these operating companies in the first half of 2014.

The decrease in cash flows from operations for the year ended December 31, 2013 compared to the same period in 2012 is principally due to changes in working capital, which is related to the aforementioned delays in billing and slower collections in our accounts receivable and the change in payables in 2013, as we were delayed in 2012 in executing payable at normal volumes due to the implementation of Phase I of our business transformation project. Partially offsetting these working capital decreases was a reduction in the pension and postretirement healthcare contributions in 2013.

The increase in cash flows from operations for the year ended December 31, 2012 compared to the same period in 2011 is primarily attributable to additional revenues in 2012 and lower pension and postretirement healthcare contributions.

The Company expects to make pension and postretirement benefit contributions to the plan trusts of $49.3 million in 2014, of which $10.7 million was already made in 2014. In addition, we estimate that contributions will amount to $64.0 million in 2015, $68.8 million in 2016, $67.5 million in 2017 and $62.3 million in 2018. Actual amounts contributed could change materially from these estimates as a result of changes in assumptions and actual investment returns.

Cash Flows from Investing Activities

Cash flows used in investing activities were as follows for the periods indicated:

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Net capital expenditures	$ (980,252)	$ (928,574)	$ (924,858)
Proceeds from sale of assets and securities	918	561,739	9,972
Acquisitions	(23,658)	(44,560)	(7,220)
Other investing activities, net(1)	(50,302)	29,039	9,709
Net cash flows used in investing activities	$ (1,053,294)	$ (382,356)	$ (912,397)

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(1) Includes removal costs from property, plant and equipment retirements, net funds released and other.

Cash flows used in investing activities increased in 2013 compared to 2012 primarily due to an increase in our capital expenditures for the year ended December 31, 2013 principally as a result of incremental spending associated with the replacement of our transmission and distribution infrastructure.

Our infrastructure investment plan consists of both infrastructure renewal programs, where we replace infrastructure as needed, and major capital investment projects, where we construct new water and wastewater treatment and delivery facilities to meet new customer growth and water quality regulations. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

The following table provides a summary of our historical capital expenditures related to upgrading our infrastructure and systems :

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Transmission and distribution	$ 435,449	$ 343,640	$ 298,564
Treatment and pumping	89,278	138,072	191,771
Services, meter and fire hydrants	178,412	171,855	175,635
General structures and equipment	131,446	104,854	84,059
Business transformation project	59,746	107,049	99,891
Sources of supply	50,013	44,602	58,066
Wastewater	35,908	18,502	16,872
Total capital expenditures	$ 980,252	$ 928,574	$ 924,858

Capital expenditures for the year ended December 31, 2013, increased by $51.7 million or 5.6% compared to 2012, principally due to our continued replacement of transmission and distribution infrastructure, rehabilitation to storage facilities and dam rehabilitation and increased expenditures related to information systems, and vehicles. Partially offsetting this increase was reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects in 2012 as well as a reduction in our business transformation expenses also due to completion of Phase I of the project in 2012 and the implementation of a portion of Phase II in May 2013.

Capital expenditures for the year ended December 31, 2012 increased by $3.7 million, or 0.4%, compared to 2011, mainly as a result of an increase in the replacement of transmission/distribution infrastructure and higher business transformation project expenditures, partially offset by a reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects, for which major expenditures occurred in 2011.

In 2013, we implemented Phase II, the final phase, of our business transformation project. Through December 31, 2013 including AFUDC, capital expenditures amounted to $322.8 million on the project with $65.8 million spent in 2013. As we make adjustments to our operations as a result of this project, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. While we believe such expenditures to realize the efficiencies can be recovered through regulated rates, we can provide no guarantee that we will be able to achieve timely rate recovery of these increased costs associated with this transformation project. Any such delays or difficulties encountered with such recovery may have a material and adverse impact on our business, customer relationships and financial results.

The change in proceeds from sale of assets and securities from 2013 to 2012 and 2012 to 2011 reflects the fact that 2012 included cash proceeds of $561.7 million received from the sale of our Arizona, New Mexico and Ohio subsidiaries in 2012 partially offset by cash proceeds used for acquisition purposes, with the largest being the acquisition of additional regulated water operations in New York

One avenue to seek growth is through tuck-ins, by helping commissions with troubled water systems as well as other acquisitions that are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions are funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

The following provides a summary of the acquisitions and dispositions affecting our cash flows from investing activities in the years indicated:

2013:

- We paid approximately $23.7 million for ten water and five wastewater system. These acquisitions added approximately 30,000 customers to our existing regulated footprint. The largest of these acquisitions was the acquisition of the stock of a wastewater system in Virginia with approximately 20,000 customers in November 2013 for a purchase price of $5.1 million (net of cash acquired of $6.9 million) plus assumed liabilities.
- We received approximately $0.9 million for the sale of assets and securities.

2012:

- We paid approximately $44.6 million for numerous regulated water and wastewater systems in New York, Pennsylvania, Indiana, Missouri and West Virginia, with the largest associated with the acquisition of seven regulated water systems in New York in May 2012 for a purchase price of $36.7 million plus assumed liabilities.
- We received approximately $561.7 million from the sale of our assets and securities, including $458.9 million associated with the sale of our Arizona, New Mexico and Ohio regulated subsidiaries.

2011:

- We paid approximately $7.2 million for numerous regulated water and wastewater systems in Missouri, New Jersey, and Pennsylvania, with the largest associated with the acquisition of 11 regulated water systems and 48 wastewater systems in Missouri in May 2011 for a purchase price of $3.3 million.
- We received approximately $10.0 million for the sale of assets and securities, including $6.2 million associated with the sale of our Texas subsidiary's assets and $2.9 million from the sale of the Applied Water Management subsidiary.

As previously noted, in 2014, we estimate that our total capital plan is $1.1 billion with approximately $900 million allocated to upgrading our infrastructure and systems, $100 million for acquisitions and $100 million for strategic investment purposes. For years in the foreseeable future beyond 2014, we estimate such investment will be between $1.1 and $1.2 billion per year.

We intend to invest capital prudently to provide essential services to our regulated customer base, while working with regulators in the various states in which we operate to have the opportunity to earn an appropriate rate of return on our investment and a return of our investment.

Our investing activities could require considerable capital resources which we have generated through operations and attained through financing activities. We can provide no assurances that these resources will be sufficient to meet our expected investment needs and may be required to delay or reevaluate our investment plans.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be funded with customer advances and contributions for construction (net of refunds). This amounted to $19.3 million, $31.9 million and $22.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. As previously noted AWCC is a wholly-owned finance subsidiary of the Company. Based on the needs of our regulated subsidiaries and the Company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the Company. The regulated subsidiaries and the Company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the Company's borrowings are not a source of capital for the regulated subsidiaries, the Company is not able to recover the interest charges on the Company's debt through regulated water and wastewater rates. As of December 31, 2013, AWCC has made long-term fixed rate loans and commercial paper loans to our Regulated Businesses amounting to $2.9 billion and $390.9 million, respectively. Additionally, as of December 31, 2013, AWCC has made long-term fixed rate loans and commercial paper loans to the Company totaling $778.3 million and $239.4 million to the Company, respectively.

On May 4, 2012, we and AWCC filed a universal shelf registration statement that enabled us to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, all subject to market demand and ratings status. During 2013 and 2012, $400 million and $300 million, respectively, of debt securities were issued pursuant to this filing.

As previously noted, on October 8, 2013, we announced the purchase and retirement through a tender offer of $225.8 million in aggregate outstanding principal amount of our 6.08% Senior Notes due 2017. On October 8, 2013, we paid $271.8 million to effect the tender, which in addition to the principal included a repurchase premium of $39.4 million and accrued interest of $6.6 million. Also, in October 2013 and related to the tender, we recorded transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. The redemption was originally financed through commercial paper borrowing. If we continue to finance this debt through commercial paper borrowings and with the assumption that current short-term rates remain the same, we would expect to have pre-tax interest expense savings of approximately $13.1 million in 2014.

On November 1, 2013, we issued notices of redemption for $74.8 million and $75.0 million of outstanding Senior Notes with an original maturity date of 2038 and interest rates of 8.25% and 10.0%, respectively. These notes were retired on December 1, 2013.

On November 20, 2013, AWCC issued $400 million of 3.850% Senior Notes due 2024.

Also on December 21, 2013, an additional $101.0 million with interest rate of 5.39% in Senior Notes matured.

The following long-term debt was issued in 2013:

Company	**Type**	**Interest Rate**	**Maturity**	**Amount (in thousands)**
American Water Capital Corp.	Senior notes–fixed rate	3.85%	2024 (a)	$ 400,000
American Water Capital Corp.	Private activity bonds and government funded debt–fixed rate	2.30%-2.90%	2021-2030(b)	8,122
Other subsidiaries	Private activity bonds and government funded debt–fixed rate	1.59%-2.41%	2031-2033(c)	2,737
Total issuances				$ $410,859

(a) On November 20, 2013, AWCC closed on a 3.85% senior fixed rate notes. Proceeds used to refinance commercial paper borrowings.

(b) Proceeds from the above issuance were received in the fourth quarter of 2013 and have been utilized to fund certain specific projects. $6.7 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

(c) Proceeds from the above issuances were received from Pennsylvania Infrastructure Investment Authority ("PennVest") and has been used to fund certain projects.

In addition to the above issuances, we also assumed $12.7 million of debt as a result of a acquisitions in 2013, of which $12.5 million is the result of our Dale Service Corporation stock acquisition in the fourth 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 (in thousands)
American Water Capital Corp.	Senior notes-fixed rate	5.39%-10.00%	2013-2017	$ 476,638
Other subsidiaries (1)	Private activity bonds and government funded debt–fixed rate	0.00% -5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds–fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatory redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Capital leases & other			359
Total retirements & redemptions				$ 498,310

(1) Includes a $3.6 million of non-cash redemptions resulting from the use of restricted funds.

The following long-term debt was issued in 2012:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes–fixed rate	4.30%	2042(a)	$ 300,000
Other subsidiaries	Private activity bonds and government funded debt–fixed rate	0.00%-5.00%	2025-2041(b)	68,746
Other subsidiaries	Private activity bonds and government funded debt–fixed rate	1.00%-2.76%	2025-2041(c)	14,730
Other subsidiaries	Mortgage bonds–fixed rate	4.29%	2022	700
Total issuances				$ 384,176

(a) The net proceeds from this issuance were used to finance certain redemptions of long-term debt and to fund the repayment of short-term debt.

(b) Proceeds from these issuances were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the Trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

(c) Proceeds from these issuances were received from the Pennsylvania Infrastructure Investment Authority and has been used to fund specified projects.

Also, in the second quarter of 2012, and in connection with the acquisition of our additional subsidiaries in New York, we assumed debt of $25.2 million with coupon rates of 5.00% to 6.00% and maturity dates ranging from 2015 to 2035. In September 2012, we redeemed $10.9 million of these outstanding bonds with original maturity dates of 2031 to 2035 and interest rates ranging from 5.00% to 6.00%.

The following long-term debt was retired through optional redemption or payment at maturity during 2012:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes-fixed rate	8.25%	2038	$ 10
Other subsidiaries	Private activity bonds and government funded debt–fixed rate	0.00%-9.60%	2012-2041	447,325
Other subsidiaries	Mortgage bonds–fixed rate	6.85%-7.95%	2012	24,200
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2036	1,549
Other	Capital leases & other			419
Total retirements & redemptions				$ 473,503

Included in the long-term debt redemptions/retirements is $4.2 million related to our previously held Ohio subsidiary, which was classified in discontinued operations prior to its divestiture.

The following long-term debt was issued in 2011:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
Other subsidiaries	Private activity bonds and government funded debt–fixed rate	0.00%-1.56%	2031	$ 12,510
Total issuances				$ 12,510

The following long-term debt was retired through optional redemption or payment at maturity during 2011:

Company	Type	Interest Rate	Maturity	Amount (in thousands)
American Water Capital Corp.	Senior notes-fixed rate	6.00%-8.25%	2011-2039	$ 28,287
Other subsidiaries	Private activity bonds and government funded debt-fixed rate	0.00%-5.90%	2011-2034	7,976
Other subsidiaries	Mortgage bonds–fixed rate	8.21%-9.71%	2011-2022	33,191
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2019	1,888
Other	Capital leases & other			4,078
Total retirements & redemptions				$ 75,420

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheets.

Credit Facility and Short-Term Debt

The short-term debt balance, consisting of commercial paper, net of discount, amounted to $630.3 million and $270.0 million at December 31, 2013 and 2012, respectively.

On October 29, 2012, we terminated a previously maintained senior unsecured credit facility for $840 million and entered into a new unsecured revolving credit facility with $1 billion in aggregate total commitments from a diversified group of 14 banks and which was to have matured on October 29, 2017 (subject to up to two 1-year extensions at our request). On September 9, 2013, The Company announced that AWCC and its lender had agreed to increase lending commitments under AWCC's revolving credit facility from $1 billion to $1.25 billion. In addition, $1.18 billion of the credit facility has been extended from its original termination date of October 2017 to October 2018. Interest rates on advances under the facility are based on a credit spread to the Eurodollar rate or base rate with the credit spread of 1.00% through June 2012 and then based on the higher of AWCC's Moody's Investors Service, which we refer to as Moody's or Standard & Poor's Ratings Services ratings, which we refer to as S&P, credit rating. At current ratings that spread would be 1.00%. This facility requires the Company to maintain a ratio of consolidated capitalization of not more than 0.70 to 1.00. The facility will be principally used to support AWCC's commercial paper program and to provide up to $150.0 million in letters of credit.

We closely monitor events in the financial markets and the financial institutions associated with this credit facility. In accordance with the credit agreement, no financial institution can have more than $250.0 million of the aggregate commitment through the facility expiration date . If any lender defaults in its obligation to fund advances, the Company may request the other lenders to assume the defaulting lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment. However, the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will be able to replace a defaulting lender.

The following table provides information as of December 31, 2013 and 2012, regarding the respective credit facility in effect at the time, letters of credit sub-limits and available funds under those revolving credit facilities, as well as outstanding amounts of commercial paper and outstanding borrowings under the respective facilities:

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sublimit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
				(in thousands)		
December 31, 2013	$ 1,250,000	$ 1,208,215	$ 150,000	$ 108,215	$ 630,307	$ —
December 31, 2012	$ 1,000,000	$ 967,137	$ 150,000	$ 117,137	$ 269,985	$ —

AWCC had no outstanding borrowings under the credit facility and $41.6 million of outstanding letters of credit under this credit facility as of February 21, 2014. Also, as of February 21, 2014, AWCC had $629.9 million of commercial paper outstanding.

The weighted-average interest rate on short-term borrowings for the years ended December 31, 2013 and 2012 was approximately 0.37 % and 0.49%, respectively.

Capital Structure

The following table indicates the percentage of our capitalization represented by the components of our capital structure as of December 31, 2013, 2012 and 2011:

	At December 31, 2013	At December 31, 2012	At December 31, 2011
Common stockholder equity and preferred stock without mandatory redemption rights	45%	44%	42%
Long-term debt and redeemable preferred stock at redemption value	49%	52%	53%
Short-term debt and current portion of long-term debt	6%	4%	5%
	100 %	100%	100%

The changes in the capital structure between periods were mainly attributable to changes in outstanding commercial paper balances. The increase in 2011 was the result of funding the majority of 2011 cash requirements with commercial paper as a result of anticipating the proceeds from the divestiture of our Arizona and New Mexico regulated businesses in 2012. We used the net proceeds from the sale to pay down commercial paper in 2012.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue debt or access our revolving credit lines. We were in compliance with our covenants as of December 31, 2013. Long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. On December 31, 2013, our ratio was 0. 55 to 1.00 and therefore we were in compliance with the ratio.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we also issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities, to lower our overall cost of debt.

On May 24, 2013, Standard & Poor's Rating Service, ("S&P"), upgraded its corporate credit rating to A- on AWCC and American Water and AWCC's "A2" short term rating. On that date, they also confirmed its stable rating outlook for American Water and AWCC. On May 29, 2013, Moody's upgraded its rating outlook for both American Water and AWCC from Baa2 to Baa1 and revised its rating outlook to stable.

The following table shows the Company's securities ratings as of December 31, 2013:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flow is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Dividends

Our board of directors has adopted a dividend practice to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. We expect that dividends will be paid quarterly to holders of record approximately 15 days prior to the distribution date. Since the dividends on our common stock will not be cumulative, only declared dividends will be paid.

During 2013, 2012 and 2011, we paid $149.5 million, $213.5 million and $157.9 million in dividends, respectively. For 2013, we paid a dividend of $0.28 per share on December 2, September 3 and June 3 to all shareholders of record as of November 15, 2013, August 19, 2013, and May 24, 2013, respectively.

For 2012, we paid a dividend of $0.25 per share on December 28, December 3 and September 3 and $0.23 per share on June 1 and March 1. The December 28, 2012 cash dividend payment of $0.25 per share would have historically been paid in March 2013, however, the Board approved accelerating the payment date to 2012 to take advantage of the existing 2012 tax rates. For 2011, we paid a dividend of $0.23 per share on December 1 and September 1 and $0.22 per share on June 1 and March 1.

On December 13, 2013, our board of directors declared a quarterly cash dividend payment of $0.28 per share payable on March 3, 2014 to all shareholders of record as of February 3, 2014.

Regulatory Restrictions

The issuance by the Company or AWCC of long-term debt or equity securities does not require authorization of any state PUC if no guarantee or pledge of the regulated subsidiaries is utilized. However, state PUC authorization is required to issue long-term debt or equity securities at most of our regulated subsidiaries. Our regulated subsidiaries normally obtain the required approvals on a periodic basis to cover their anticipated financing needs for a period of time or in connection with a specific financing.

Under applicable law, our subsidiaries can pay dividends only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the dividends that the subsidiary can distribute to us.

Insurance Coverage

We carry various property, casualty and financial insurance policies with limits, deductibles and exclusions that we believe are consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. Additionally, annual policy renewals can be impacted by claims experience which in turn can impact coverage terms and conditions on a going forward basis. We are self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our short-term and long-term financial condition and our results of operations and cash flows.

Contractual Obligations and Commitments

We enter into obligations with third parties in the ordinary course of business. These financial obligations, as of December 31, 2013, are set forth in the table below:

Contractual obligation	Total	Less Than 1 year	1-3 Years	3-5 years	More Than 5 years
			(in thousands)		
Long-term debt obligations (a)	$ 5,183,709	$ 12,492	$ 110,178	$ 1,042,563	$ 4,018,476
Interest on long-term debt (b)	4,443,386	294,944	592,723	546,411	3,009,308
Capital lease obligations (c)	913	32	78	99	704
Interest on capital lease obligations (d)	952	111	212	197	432
Operating lease obligations (e)	147,530	15,898	24,317	17,997	89,318
Purchase water obligations (f)	715,443	54,288	105,615	87,017	468,523
Other purchase obligations (g)	76,416	76,416	-	-	-
Postretirement benefit plans' obligations (h)	79,737	12,137	35,300	32,300	-
Pension plan obligations (h)	273,191	37,191	97,500	97,500	41,000
Preferred stocks with mandatory redemption requirements	18,902	1,650	3,300	3,300	10,652
Interest on preferred stock with mandatory redemption requirements	14,155	1,549	2,671	2,101	7,834
Other obligations (i)	896,770	203,601	134,508	116,546	442,115
Total	$ 11,851,104	$ 710,309	$ 1,106,402	$ 1,946,031	$ 8,088,362

(a)

Note: The above table reflects only financial obligations and commitments. Therefore, performance obligations associated with our Market-Based Operations are not included in the above amounts.

(a) Represents sinking fund obligations and debt maturities.

(b) Represents expected interest payments on outstanding long-term debt. Amounts reported may differ from actual due to future financing of debt.

(c) Represents future minimum payments under noncancelable capital leases.

(d) Represents expected interest payments on noncancelable capital leases.

(e) Represents future minimum payments under noncancelable operating leases, primarily for the lease of motor vehicles, buildings, land and other equipment including water facilities and systems constructed by partners under the Public-Private Partnerships described below.

(f) Represents future payments under water purchase agreements for minimum quantities of water.

(g) Represents the open purchase orders as of December 31, 2013, for goods and services purchased in the ordinary course of business.

(h) Represents contributions expected to be made to pension and post retirement benefit plans for the years 2014 through 2019.

(i) Includes an estimate of advances for construction to be refunded, capital expenditures estimated to be required under legal and binding contractual obligations, contracts entered into for energy purchases, a liability associated with a conservation agreement and service agreements.

Public-Private Partnerships

West Virginia-American Water Company, which we refer to as WVAWC, has entered into a series of agreements with various public entities, which we refer to as the Partners, to establish certain joint ventures, commonly referred to as “public-private partnerships.” Under the public-private partnerships, WVAWC constructed utility plant, financed by WVAWC, and the Partners constructed utility plant (connected to WVAWC’s property), financed by the Partners. WVAWC agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds, commonly referred to as IDBs, issued by the Partners under a state Industrial Development Bond and Commercial Development Act. WVAWC leased back the total facilities, including portions funded by both WVAWC and the Partners, under leases for a period of 40 years.

WVAWC leased back the transferred facilities under capital leases for a period of 40 years. The leases have payments that approximate the payments required by the terms of the IDBs. We have presented the transaction on a net basis in the consolidated financial statements. The carrying value of the transferred facilities, which is presented within utility plant, was approximately $158. 1 million at December 31, 2013.

Performance Obligations

We have entered into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. These military services agreements expire between 2051 and 2060 and have remaining performance commitments as measured by estimated remaining contract revenues of $2.0 billion at December 31, 2013. The Operations and Maintenance agreements with municipalities and other customers expire between 2014 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $928.0 million at December 31, 2013. Some of the Company’s long-term contracts to operate and maintain a municipality’s, federal government’s or other party’s water or wastewater treatment and delivery facilities include responsibility for certain major maintenance for some of the facilities, in exchange for an annual fee.

Critical Accounting Policies and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions and other judgments. Although our management believes that these estimates, assumptions and other judgments are appropriate, they relate to matters that are inherently uncertain. Accordingly, changes in the estimates, assumptions and other judgments applied to these accounting policies could have a significant impact on our financial condition and results of operations as reflected in our consolidated financial statements.

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. Management believes that the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions in matters that are inherently uncertain and that may change in subsequent periods. Our management has reviewed these critical accounting policies, and the estimates and assumptions regarding them, with our audit committee. In addition, our management has also reviewed the following disclosures regarding the application of these critical accounting policies with the audit committee.

Regulatory Accounting

Our regulated utility subsidiaries are subject to regulation by state PUCs and the local governments of the states in which they operate. As such, we account for these regulated operations in accordance with authoritative guidance that requires us to reflect the effects of rate regulation in our financial statements. Use of the authoritative guidance is applicable to utility operations that meet the following criteria (1) third-party regulation of rates; (2) cost-based rates; and (3) a reasonable assumption that all costs will be recoverable from customers through rates. As of December 31, 2013, we had concluded that the operations of our regulated subsidiaries meet the criteria. If it is concluded in a future period that a separable portion of the business no longer meets the criteria, we are required to eliminate the financial statement effects of regulation for that part of the business, which would include the elimination of any or all regulatory assets and liabilities that had been recorded in the consolidated financial statements. Failure to meet the criteria of the authoritative guidance could materially impact our consolidated financial statements as a one-time extraordinary item and continued impacts on our operating activities.

Regulatory assets represent costs that have been deferred to future periods when it is probable that the regulator will allow for recovery through rates charged to customers. Regulatory liabilities represent revenues received from customers to fund expected costs that have not yet been incurred. As of December 31, 2013, we have recorded $858.5 million of net regulatory assets, including $242.9 million of income taxes that are recoverable through rates, within our Consolidated Financial Statements. Also, at December 31, 2013, we had recorded $373.3 million of regulatory liabilities within our consolidated financial statements. See Note 6 of the Notes to Consolidated Financial Statements for further information regarding the significant regulatory assets and liabilities.

For each regulatory jurisdiction where we conduct business, we continually assess whether the regulatory assets and liabilities continue to meet the criteria for probable future recovery or settlement. This assessment includes consideration of factors such as changes in applicable regulatory environments, recent rate orders to other regulated entities in the same jurisdiction, the status of any pending or potential deregulation legislation and the ability to recover costs through regulated rates. If subsequent events indicate that the regulatory assets or liabilities no longer meet the criteria for probable future recovery or settlement, our statement of operations and financial position could be materially affected.

Goodwill

The Company's annual impairment reviews are performed as of November 30 of each year, in conjunction with the timing of the completion of the Company's annual strategic business plan. At December 31, 2013, the Company's goodwill was $ 1,207.8 million. The Company also undertakes interim reviews 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.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendments allow an entity first to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption was permitted.

The Company decided to adopt this new guidance in 2012 and for its 2013 and 2012 annual tests applied the qualitative test ("step 0" or "step 0 test") to its reporting units for the annual impairment test performed as of November 30, 2013 and 2012.

The Company completed a quantitative fair value measurement of its reporting units when performing its goodwill impairment analysis on November 30, 2011. As of the 2011 testing date, a quantitative assessment was made and implied that the fair value of its reporting units was well in excess of their carrying amount and no impairment was required.

In the 2013 and 2012 qualitative step 0 test at November 30, 2013 and 2012, after assessing various events and circumstances that would affect the estimated fair value of the reporting units in its base line November 30, 2011 test, the Company determined that it was not required to calculate the fair value of its reporting units at November 30, 2013 and 2012. The Company determined that it was more likely than not that its reporting unit fair values are greater than the reporting unit carrying values and no impairment is necessary.

On a periodic basis or in the case of a triggering event, the Company will use the two-step impairment test to identify potential goodwill impairment and measures the amount of a goodwill impairment loss to be recognized (if any). The step 1 calculation used to identify potential impairment compares the calculated fair value for each of the Company's reporting units to their respective net carrying values (book values), including goodwill, on the measurement date. If the fair value of any reporting unit is less than such reporting unit's carrying value, then step 2 is performed to measure the amount of the impairment loss (if any) for such reporting unit.

The step 2 calculation of the impairment test compares, by reporting unit, the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of each reporting unit above the fair value of such reporting unit's identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill for any reporting unit, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill) for that reporting unit.

The determination of the fair value of each reporting unit and the fair value of each reporting unit's assets and liabilities is performed as of the measurement date using observable market data before and after the measurement date (if that subsequent information is relevant to the fair value on the measurement date).

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies, or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

For the years ended December 31, 2013 and 2012, no impairment charge was recorded. For the year ended December 31, 2011, no impairment charge was recorded for our continuing operations. In 2011, we recorded a pre-tax charge to goodwill of $25.5 million relating to parent company goodwill associated with businesses classified as discontinued operations.

Impairment of Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner in which the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, we estimate the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets, and compare that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they are forecasting future events. A variation in the assumptions used could lead to a different conclusion regarding the realizability of an asset and, thus, could have a significant effect on the consolidated financial statements.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which we invest, as well as volatility inherent in the external markets. In assessing potential impairment for these investments, we consider these factors. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Revenue Recognition

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are delivered to customers and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period. Unbilled utility revenues as of December 31, 2013 and 2012 were $217.1 million and $180.6 million, respectively. Increases in volumes delivered to the utilities' customers and rate mix due to changes in usage patterns in customer classes in the period could be significant to the calculation of unbilled revenue. Changes in the timing of meter reading schedules and the number and type of customers scheduled for each meter reading date would also have an effect on the estimated unbilled revenue; however, since the majority of our customers are generally billed on a monthly basis, total operating revenues would remain materially unchanged. During 2013 and in connection with our CIS implementation, there are instances where billings to customers have been delayed, including a conscious decision to delay billings in order to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As a result of these delays in billings, unbilled revenues at December 31, 2013 has increased significantly, however, total operating revenues would be materially unchanged due to a corresponding decrease in billed revenue.

Revenue from Market-Based Operations is recognized as services are rendered. Revenues from certain construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities on the balance sheet until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Accounting for Income Taxes

The parent company and its subsidiaries participate in a consolidated federal income tax return for United States tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Accounting for Pension and Postretirement Benefits

We maintain noncontributory defined benefit pension plans covering eligible employees of our regulated utility and shared service operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 will be provided with a 5.25% of base pay defined contribution plan. We also maintain other postretirement benefit plans, which provide varying levels of medical and life insurance for eligible retirees. These retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002. The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees. The Company does not participate in a multiemployer plan. See Note 14 of the Notes to Consolidated Financial Statements for further information regarding the accounting for the defined benefit pension plans and postretirement benefit plans. The Company's pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to its actuaries, including the discount rate and expected long-term rate of return on plan assets. Material changes in the Company's pension and postretirement benefit costs may occur in the future due to changes in these assumptions as well as fluctuations in plan assets. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes. The primary assumptions are:

- Discount Rate—The discount rate is used in calculating the present value of benefits, which are based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due;
- Expected Return on Plan Assets ("EROA")—Management projects the future return on plan assets considering prior performance, but primarily based upon the plans' mix of assets and expectations for the long-term returns on those asset classes. These projected returns reduce the net benefit costs we record currently;
- Rate of Compensation Increase—Management projects employees' pay increases, which are used to project employees' pension benefits at retirement; and
- Health Care Cost Trend Rate—Management projects the expected increases in the cost of health care.

The discount rate assumption, which is determined for the pension and postretirement benefit plans independently, is subject to change each year, consistent with changes in applicable high-quality, long-term corporate bond indices. At year end 2011, we began using an approach that ap proximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a portfolio containing the majority of United States-issued AA-graded non-callable (or callable with make-whole provisions) corporate bonds. For each plan, the discount rate was developed as the level equivalent rate that would yield the same present value as using spot rates aligned with the projected benefit payments. The discount rate for determining pension benefit obligations was 5.12%, 4.17% and 5.02% at December 31, 2013, 2012 and 2011, respectively. The discount rate for determining other post-retirement benefit obligations was 5.10%, 4.16% and 5.05% at December 31, 2013, 2012 and 2011, respectively.

In selecting an expected return on plan assets, we considered tax implications, past performance and economic forecasts for the types of investments held by the plans. The long-term EROA assumption used in calculating pension cost was 7.49% for 2013, 7.75%, for 2012 and 7.90% for 2011. The weighted average EROA assumption used in calculating other postretirement benefit costs was 6.99% for 2013, 7.41% for 2012 and 7.60% for 2011.

The asset allocations for the Company's U.S. pension plan at December 31, 2013 and 2012, by asset category, are as follows:

Asset category	**Target Allocation 2014**	**Percentage of Plan Assets At December 31, 2013**	**2012**
Equity securities	52%	64%	70%
Fixed income	40%	35%	30%
Real Estate	6%	—	—
Real estate investment trusts ("REITs")	2%	1%	—
Total	100%	100%	100%

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor's and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company's other postretirement benefit plans are partially funded. The asset allocations for the Company's other postretirement benefit plans at December 31, 2013 and 2012, by asset category, are as follows:

Asset category	Target Allocation 2014	Percentage of Plan Assets At December 31, 2013	2012
Equity securities	47%	48%	59%
Fixed income	53%	52%	38%
REITs	—	—	3%
Total	100%	100%	100%

The Company's investment policy, and related target asset allocation, is evaluated periodically through asset liability studies. The studies consider projected cash flows of maturity liabilities, projected asset class return risk, and correlation and risk tolerance.

The pension and postretirement welfare plan trusts investments include debt and equity securities held either directly or through commingled funds. The trustee for the Company's defined benefit pension and post retirement welfare plans uses independent valuation firms to calculate the fair value of plan assets. Additionally, the company independently verifies the assets values. Approximately 56.1% of the assets are valued using the quoted market price for the assets in an active market at the measurement date, while 43.9% of the assets are valued using other inputs.

In selecting a rate of compensation increase, we consider past experience in light of movements in inflation rates. Our rate of compensation increase was 3.15% for 2013, 3.19% for 2012 and 3.25% for 2011.

In selecting health care cost trend rates, we consider past performance and forecasts of increases in health care costs. Our health care cost trend rate used to calculate the periodic cost was 7.25% in 2013 gradually declining to 5.00% in 2019 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Change in Actuarial Assumption	Impact on Other Postretirement Benefit Obligation at December 31, 2013	Impact on 2013 Total Service and Interest Cost Components
	(in thousands)	
Increase assumed health care cost trend by 1%	$ 72,238	$ 7,367
Decrease assumed health care cost trend by 1%	$ 60,261	$ 5,974

We will use a discount rate and EROA of 5.12% and7.49%, respectively, for estimating our 2014 pension costs. Additionally, we will use a discount rate and EROA of 5.10% and 6.99%, respectively, for estimating our 2014 other postretirement benefit costs. A decrease in the discount rate or the EROA would increase our pension expense. Our 2012 and 2011 pension and postretirement costs, including such expenses charged to our discontinued operations, were $72.2 million and $87.3 million, respectively. The Company expects to make pension and postretirement benefit contributions to the plan trusts of $49.3 million, $64.0 million, $68.8 million $67.5 and $62.3 million in 2014, 2015, 2016, 2017 and 2018, respectively. Actual amounts contributed could change significantly from these estimates. The assumptions are reviewed annually and at any interim re-measurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension and postretirement benefit amounts as they occur, or over a period of time if allowed under applicable accounting standards. As these assumptions change from period to period, recorded pension and postretirement benefit amounts and funding requirements could also change.

New Accounting Standards

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.

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.

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to increase transparency around valuation inputs and investment categorization. This guidance was effective for interim and annual periods beginning on January 1, 2012 and was required to be applied prospectively. The adoption of this guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Comprehensive Income

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new guidance allows an entity to present components of net income and other comprehensive income in either one continuous statement or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. In December 2011, the FASB deferred the requirement to present reclassification adjustments of other comprehensive income on the face of the income statement. This new guidance on the presentation of comprehensive income was effective for the Company beginning on January 1, 2012. As the Company already presented the components of net income and other comprehensive income in one continuous statement prior to the adoption of the guidance, the adoption of the new guidance did not have an impact on its results of operations, financial position or cash flows.

Testing Goodwill for Impairment

In September 2011, the FASB updated the accounting guidance related to testing goodwill for impairment. This update permits an entity to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test that is currently in place. Under the new guidance, an entity will not be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This update is effective for annual and interim goodwill impairment tests performed by the Company beginning on January 1, 2012. The adoption of this update to the guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Revenue Arrangements with Multiple Deliverables

In October 2009, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. This guidance was effective for the Company beginning on January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The adoption of this guidance did not have a significant impact on the Company's results of operations, financial position or cash flows.

Business Combinations

In December 2010, the FASB clarified the requirements for reporting of pro forma revenue and earnings disclosures for business combinations. The accounting update specified that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expanded the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations finalized after January 1, 2011. As this guidance clarifies and provides for additional disclosure requirements only, the adoption of this guidance has not had a material impact on the Company's results of operations, financial position or cash flows.

Intangibles—Goodwill

In December 2010, the FASB issued authoritative guidance that modifies step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. The update requires that for those reporting units, an entity is required to perform step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing authoritative guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance was effective for the Company beginning on January 1, 2011. The adoption of this update did not have a significant impact on the Company's results of operations, financial position or cash flows.

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

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 them 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We are exposed to risks from changes in interest rates as a result of our issuance of variable and fixed rate debt and commercial paper. We manage our interest rate exposure by limiting our variable rate exposure and by monitoring the effects of market changes in interest rates. We also have the ability to enter into financial derivative instruments, which could include instruments such as, but not limited to, interest rate swaps, forward starting swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. As of December 31, 2013, a hypothetical increase of interest rates by 1% associated with our short-term borrowings would result in a $6.3 million decrease in our pre-tax earnings.

In July 2010, we entered into an interest rate swap agreement with a notional amount of $100.0 million. This agreement effectively converted the interest on $100.0 million of outstanding 6.085% fixed rate debt maturing 2017 to a variable rate of six-month LIBOR plus 3.422%. We entered into this interest rate swap to mitigate interest cost at the parent company relating to debt that was incurred by our prior owners and was not used in any manner to finance the cash needs of our subsidiaries. For the years ended December 31, 2013 and 2012, the interest rate swap reduced interest expense by $2.0 and $2.4 million, respectively. As the swap interest rates are fixed through April 2014, a hypothetical 1% increase in the interest rates associated with the interest swap agreement would result in a $0.3 million decrease on our pre-tax earnings for the year ended December 31, 2013. This calculation holds all other variables constant and assumes only the discussed changes in interest rates.

Our risks associated with price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

We are exposed to credit risk through our water, wastewater and other water-related activities for both our Regulated Businesses and Market-Based Operations. Our Regulated Businesses serve residential, commercial, industrial and other customers while our Market-Based Operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated Businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

The Company's retirement trust assets are exposed to the market prices of debt and equity securities. Changes to the retirement trust asset value can impact the Company's pension and other benefits expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover pension and other benefit costs through rates. In addition, pension and other benefits liabilities decrease as fixed income asset values decrease (fixed income yields rise) since the rate at which we discount pension and other retirement trust asset future obligations is highly correlated to fixed income yields.

We are also exposed to a potential national economic recession or further deterioration in local economic conditions in the markets in which we operate. The credit quality of our customer accounts receivable is dependent on the economy and the ability of our customers to manage through unfavorable economic cycles and other market changes. In addition, as a result of the downturn in the economy and heightened sensitivity of the impact of additional rate increases on certain customers, there can be no assurances that regulators will grant sufficient rate authorizations. Therefore our ability to fully recover operating expense, recover our investment and provide an appropriate return on invested capital made in our Regulated Businesses may be adversely impacted.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows, and of changes in stockholders' equity, present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2014

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

(In thousands, except per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $3,894,326 in 2013 and $3,657,221 in 2012	$ 12,244,359	$ 11,584,944
Nonutility property, net of accumulated depreciation of $228,465 in 2013 and $199,467 in 2012	146,803	154,420
Total property, plant and equipment	12,391,162	11,739,364
Current assets		
Cash and cash equivalents	26,964	24,433
Restricted funds	28,505	29,756
Accounts receivable	244,568	221,655
Allowance for uncollectible accounts	(33,953)	(26,874)
Unbilled revenues	217,147	180,628
Income taxes receivable	5,778	9,594
Materials and supplies	32,973	29,772
Other	28,408	30,483
Total current assets	550,390	499,447
Regulatory and other long-term assets		
Regulatory assets	858,465	1,199,114
Restricted funds	754	10,791
Goodwill	1,207,764	1,207,250
Other	60,998	63,010
Total regulatory and other long-term assets	2,127,981	2,480,165
TOTAL ASSETS	$ 15,069,533	$ 14,718,976
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 178,379 shares outstanding in 2013 and 176,988 in 2012)	$ 1,784	$ 1,770
Paid-in-capital	6,261,396	6,222,644
Accumulated deficit	(1,495,698)	(1,664,955)
Accumulated other comprehensive income	(34,635)	(116,191)
Treasury stock	(5,043)	0
Common stockholders' equity	4,727,804	4,443,268
Preferred stock without mandatory redemption requirements	0	1,720
Total stockholders' equity	4,727,804	4,444,988
Long-term debt		
Long-term debt	5,212,881	5,190,509
Redeemable preferred stock at redemption value	17,177	18,861
Total capitalization	9,957,862	9,654,358
Current liabilities		
Short-term debt	630,307	269,985
Current portion of long-term debt	14,174	115,919
Accounts payable	264,589	279,613
Taxes accrued	32,400	35,555
Interest accrued	52,087	53,810
Other	241,976	239,950
Total current liabilities	1,235,533	994,832
Regulatory and other long-term liabilities		
Advances for construction	375,729	379,737
Deferred income taxes	1,822,088	1,545,513
Deferred investment tax credits	26,408	27,909
Regulatory liabilities	373,319	364,181
Accrued pension expense	108,542	461,647
Accrued postretirement benefit expense	88,419	254,147
Other	38,929	40,516
Total regulatory and other long-term liabilities	2,833,434	3,073,650
Contributions in aid of construction	1,042,704	996,136
Commitments and contingencies (See Note 15)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 15,069,533	$ 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

(In thousands, except per-share data)

	Years ended December 31,		
	2013	2012	2011
Operating revenues	$ 2,901,858	$ 2,876,889	$ 2,666,236
Operating expenses			
Operation and maintenance	1,312,724	1,350,040	1,301,794
Depreciation and amortization	407,718	381,503	351,821
General taxes	234,642	221,212	210,478
(Gain) loss on asset dispositions and purchases	925	(839)	(993)
Total operating expenses, net	1,956,009	1,951,916	1,863,100
Operating income	945,849	924,973	803,136
Other income (expenses)			
Interest, net	(308,164)	(310,794)	(312,415)
Loss on extinguishment of debt	(40,583)	0	0
Allowance for other funds used during construction	12,639	15,592	13,131
Allowance for borrowed funds used during construction	6,377	7,771	5,923
Amortization of debt expense	(6,603)	(5,358)	(5,055)
Other, net	(4,045)	(926)	(1,040)
Total other income (expenses)	(340,379)	(293,715)	(299,456)
Income from continuing operations before income taxes	605,470	631,258	503,680
Provision for income taxes	236,206	257,008	198,751
Income from continuing operations	369,264	374,250	304,929
Income (loss) from discontinued operations	0	(16,180)	4,684
Net income	$ 369,264	$ 358,070	$ 309,613
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $46,974, $(16,894) and $(19,498), respectively	73,472	(26,425)	(30,497)
Pension plan amortized to periodic benefit cost:			
Prior service cost, net of tax of $111, $113 and $112, respectively	174	176	175
Actuarial loss, net of tax of $5,697, $4,668 and $2,879, respectively	8,911	7,301	4,504
Foreign currency translation adjustment	(1,001)	434	(413)
Other comprehensive income (loss)	81,556	(18,514)	(26,231)
Comprehensive income	$ 450,820	$ 339,556	$ 283,382
Basic earnings per share (a)			
Income from continuing operations	$ 2.08	$ 2.12	$ 1.74
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.08	$ 2.03	$ 1.76
Diluted earnings per share (a)			
Income from continuing operations	$ 2.06	$ 2.11	$ 1.73
Income (loss) from discontinued operations	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.06	$ 2.01	$ 1.75
Average common shares outstanding during the period			
Basic	177,814	176,445	175,484
Diluted	179,056	177,671	176,531
Dividends per common share	$ 1.12	$ 0.98	$ 1.13

(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

(In thousands, except per share data)

	Years Ended December 31, 2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 369,264	$ 358,070	$ 309,613
Adjustments			
Depreciation and amortization	407,718	381,503	351,821
Provision for deferred income taxes	250,500	200,440	195,494
Amortization of deferred investment tax credits	(1,501)	(1,518)	(1,542)
Provision for losses on accounts receivable	26,953	26,701	19,952
Allowance for other funds used during construction	(12,639)	(15,592)	(13,131)
(Gain) loss on asset dispositions and purchases	925	(839)	(993)
Pension and non-pension postretirement benefits	78,069	87,289	71,439
Stock-based compensation expense	12,474	11,470	10,008
Other, net	(727)	(1,328)	44,521
Changes in assets and liabilities			
Receivables and unbilled revenues	(79,306)	(34,528)	(34,819)
Taxes receivable, including income taxes	3,816	(1,922)	(1,199)
Other current assets	672	(5,223)	(1,305)
Pension and non-pension postretirement benefit contributions	(97,500)	(129,410)	(186,730)
Accounts payable	16,215	(10,572)	37,824
Taxes accrued, including income taxes	(30,182)	48,440	4,274
Interest accrued	(1,723)	(5,647)	(1,417)
Change in book overdraft	(32,120)	34,172	0
Other current liabilities	(14,746)	14,092	4,547
Net cash provided by operating activities	896,162	955,598	808,357
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(980,252)	(928,574)	(924,858)
Acquisitions	(23,658)	(44,560)	(7,220)
Proceeds from sale of assets and securities	918	561,739	9,972
Removal costs from property, plant and equipment retirements, net	(64,727)	(57,101)	(53,134)
Net funds released	14,425	86,140	62,843
Net cash used in investing activities	(1,053,294)	(382,356)	(912,397)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	404,157	315,430	12,510
Repayment of long-term debt	(493,095)	(471,954)	(70,045)
Proceeds from short-term borrowings with maturities greater than three months	221,000	0	0
Net short-term borrowings (repayments) with maturities less than three months	139,322	(211,064)	303,024
Proceeds from issuances of employee stock plans and DRIP	26,351	27,860	13,866
Advances and contributions for construction, net of refunds of $23,351 in 2013, $17,850 in 2012 and $21,061 in 2011	19,251	31,909	22,298
Change in bank overdraft position	0	(34,812)	(16,862)
Debt issuance costs	(4,503)	(7,393)	(552)
Redemption of preferred stocks	(3,370)	(4,376)	(1,888)
Dividends paid	(149,450)	(213,459)	(157,855)
Other	0	4,843	639
Net cash provided by (used in) financing activities	159,663	(563,016)	105,135
Net increase in cash and cash equivalents	2,531	10,226	1,095
Cash and cash equivalents at beginning of period	24,433	14,207	13,112
Cash and cash equivalents at end of period	$ 26,964	$ 24,433	$ 14,207
Cash paid during the year for:			
Interest, net of capitalized amount	$ 317,826	$ 329,331	$ 331,944
Income taxes, net of refunds of $127 in 2013, $766 in 2012 and $812 in 2011	$ 7,788	$ 5,352	$ 14,269
Non-cash investing activity			
Capital expenditures acquired on account but unpaid as of year end	$ 128,902	$ 159,119	$ 104,816
Non-cash financing activity			
Advances and contributions	$ 17,590	$ 12,279	$ 23,504
Dividends accrued	$ 49,909	$ 0	$ 40,403
Long-term debt	$ 6,702	$ 68,746	$ 0
Long-term debt retired	$ (3,565)	$ 0	$ 0

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

(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	Total Stockholders' Equity
Balance at December 31, 2010	174,996	$ 1,750	$ 6,156,675	$ (1,959,235)	$ (71,446)	(1)	$ (19)	$ 4,547	$ 4,132,272
Net income	—	—	—	309,613	—	—	—	—	309,613
Direct stock reinvestment and purchase plan, net of expense of $19	64	1	1,807	—	—	—	—	—	1,808
Employee stock purchase plan	121	1	3,533	—	—	—	—	—	3,534
Stock-based compensation activity	483	5	18,543	(921)	—	1	19	—	17,646
Other comprehensive loss, net of tax of $(16,507)	—	—	—	—	(26,231)	—	—	—	(26,231)
Dividends	—	—	—	(198,258)	—	—	—	—	(198,258)
Balance at December 31, 2011	175,664	$ 1,757	$ 6,180,558	$ (1,848,801)	$ (97,677)	0	$ 0	$ 4,547	$ 4,240,384
Net income	—	—	—	358,070	—	—	—	—	358,070
Direct stock reinvestment and purchase plan, net of expense of $14	60	0	2,092	—	—	—	—	—	2,092
Employee stock purchase plan	87	1	3,306	—	—	31	1,046	—	4,353
Stock-based compensation activity	1,177	12	36,688	(1,168)	—	(31)	(1,046)	—	34,486
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(2,827)	(2,827)
Other comprehensive loss, net of tax of $(12,113)	—	—	—	—	(18,514)	—	—	—	(18,514)
Dividends	—	—	—	(173,056)	—	—	—	—	(173,056)
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	—	—	—	369,264	—	—	—	—	369,264
Direct stock reinvestment and purchase plan, net of expense of $49	53	1	2,122	—	—	—	—	—	2,123
Employee stock purchase plan	111	1	4,554	—	—			—	4,555
Stock-based compensation activity, net of expense of $11	1,227	12	32,076	(648)	—	(132)	(5,043)	—	26,397
Subsidiary preferred stock redemption	—	—	—	—	—	—	—	(1,720)	(1,720)
Other comprehensive income, net of tax of $52,782	—	—	—	—	81,556	—	—	—	81,556
Dividends	—	—	—	(199,359)	—	—	—	—	(199,359)
Balance at December 31, 2013	178,379	$ 1,784	$ 6,261,396	$ (1,495,698)	$ (34,635)	(132)	$ (5,043)	$ 0	$ 4,727,804

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

Note 1: Organization and Operation

American Water Works Company, Inc. ("AWW") and its subsidiaries (collectively referred to herein as the "Company") is the holding company for regulated and market-based subsidiaries throughout the United States of America and two Canadian provinces. The regulated subsidiaries included in continuing operations provide water and wastewater services as public utilities. These regulated subsidiaries are operationally segregated into 16 U.S. states in which the Company operates regulated utilities. The market-based subsidiaries include various lines of business including Homeowner Services, which provides water and sewer line protection plans for homeowners, and the Contract Operations group, which conducts operation and maintenance of water and wastewater facilities for the U.S. Military, municipalities and the food and beverage industry.

Note 2: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AWW and its subsidiaries. Intercompany balances and transactions between subsidiaries have been eliminated. The Company uses the equity method to report its investments in two joint venture investments in each of which the Company holds a 50% voting interest and cannot exercise control over the operations and policies of the investments. Under the equity method, the Company records its interests as an investment and its percentage share of earnings as earnings or losses of investee.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company considers benefit plan assumptions; the carrying values of goodwill and other long-lived assets, including regulatory assets; revenue recognition; and accounting for income taxes to be its critical accounting estimates. The Company's significant estimates that are particularly sensitive to change in the near term are amounts reported for pension and other postemployment benefits, contingency-related obligations and goodwill.

Regulation

The Company's regulated utilities are subject to economic regulation by the public utility commissions and the local governments of the states in which they operate (the "Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of costs and credits as regulatory assets and liabilities is in accordance with authoritative guidance applicable to those companies whose rates are established by or are subject to approval by an independent third-party regulator. Regulated utilities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in operations by a market-based company. These deferred regulatory assets and liabilities are then reflected in the statement of operations in the period in which the costs and credits are reflected in the rates charged for service. (See Note 6)

Property, Plant and Equipment

Property, plant and equipment consist primarily of utility plant. Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $303,798 and $155,221 at December 31, 2013 and 2012, respectively. The 2013 increase was primarily due to the implementation of new billing and asset management systems. The cost of repairs; maintenance, including planned major maintenance activities; and minor replacements of property is charged to maintenance expense as incurred.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Nonutility property consists primarily of buildings and equipment utilized by the Company for internal operations. This property is stated at cost, net of accumulated depreciation calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to 50 years.

Cash and Cash Equivalents

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Prior to January 1, 2012, the Company had overdraft protection provided by a revolving credit line with PNC Bank, N.A. Bank overdrafts on these accounts were reported as short-term debt and the change in the overdraft balance was reported as financing activities in the accompanying Consolidated Statements of Cash Flows. The Company did not renew this credit line at December 31, 2011. Accordingly, the Company’s outstanding checks on its cash accounts with PNC Bank, N.A. are classified as of January 1, 2012 and forward as other current liabilities in the accompanying Consolidated Balance Sheets, and changes in those accounts are included in operating activities for 2013 and 2012 in the accompanying Consolidated Statements of Cash Flows.

Restricted Funds

Restricted funds primarily represent proceeds from financings for the construction and capital improvement of facilities and deposits for future services under operation and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within 12 months subsequent to year end are classified as current.

Accounts Receivable

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and collateral is generally not required. Also included are market-based trade accounts receivable and non-utility customer receivables of the regulated subsidiaries. Unbilled receivables are accrued when service has been provided but has not been billed to customers.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company’s inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes off accounts when they become uncollectible. (See Note 5)

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Goodwill

Goodwill is primarily associated with the acquisitions of AWW in 2003 and E’town Corporation in 2001 (the “Acquisitions”) and has been assigned to reporting units based on the fair values at the date of the Acquisitions. The Regulated Businesses segment is a single reporting unit. In the Market-Based Operations segment, the business is comprised of four reporting units for its market-based services. Goodwill is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. Annual impairment reviews are performed in the fourth quarter of the calendar year, in conjunction with the timing of the completion of the Company’s annual strategic business plan.

The Company considers the carrying value of goodwill to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to value goodwill to be appropriate. However, if experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the consolidated financial s tatements.

No impairment charge was recorded in the Company's continuing operations for the years ended December 31, 2013, 2012 and 2011.

Long-Lived Assets

Long-lived assets include land, buildings, equipment and long-term investments. Long-lived assets, other than investments and land, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market value of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the asset and compares that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recorded.

The Company considers the fair value of long-lived assets to be one of its critical accounting estimates. The Company believes the assumptions and other considerations used to evaluate the carrying value of long-lived assets are appropriate. However, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the consolidated financial statements.

The key variables to determine value include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties , since they are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The Company holds other investments including investments in privately held companies and investments in joint ventures accounted for using the equity method. The Company's investments in privately held companies and joint ventures are classified as other long-term assets.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which the Company invests, as well as volatility inherent in the external markets. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value.

Advances for Construction and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances for construction ("a dvances") and contributions in aid of construction ("contributions") from customers, home builders and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Included in other current liabilities at December 31, 2013 and 2012 in the accompanying Consolidated Balance Sheets are estimated refunds of $ 17,308 and $19,698, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. In accordance with applicable regulatory guidelines, some of the Company's subsidiaries do not amortize contributions, and any contribution received remains on the balance sheet indefinitely. Amortization of contributions in aid of construction was $22,363, $20,979 and $18,327 for the years ended December 31, 2013, 2012 and 2011, respectively.

Recognition of Revenues

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are provided, and include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the meter reading associated with the latest customer invoice to the end of the accounting period.

The Company has agreements with the United States Government to operate and maintain water and wastewater systems at various military bases pursuant to 50-year contracts ("military agreements"). These contracts also include construction components that are accounted for separately from the operations and management components. The military agreements are subject to periodic price redetermination adjustments and modifications for changes in circumstance. Additionally, the Company has agreements ranging in length from two to 40 years with various industries and municipalities to operate and maintain water and wastewater systems ("O&M agreements"). Revenue from operations and management services are recognized as services are provided. (See Note 15)

Construction Contracts

Revenues from construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred by the regulated utility subsidiaries and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Allowance for Funds Used During Construction ("AFUDC")

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. The regulated utility subsidiaries record AFUDC to the extent permitted by the Regulators.

Environmental Costs

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $3,300 and $4,400 at December 31, 2013 and 2012, respectively. The accrual relates entirely to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 to 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at December 31, 2013 and 2012 include $8,027 and $8,656, respectively, related to the NOAA agreement.

Derivative Financial Instruments

The Company uses derivative financial instruments for purposes of hedging exposures to fluctuations in interest rates. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as a hedge of the fair value of a recognized asset or liability (fair-value hedge) or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge).

Changes in the fair value of a fair-value hedge, along with the gain or loss on the underlying hedged item, are recorded in current-period earnings. The effective portion of gains and losses on cash-flow hedges are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Any ineffective portion of designated hedges is recognized in current-period earnings.

Cash flows from derivative contracts are included in net cash provided by operating activities.

New Accounting Standards

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 13)

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 or financial position 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.

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 them 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.

Reclassifications

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

Note 3: Acquisitions and Divestitures

Acquisitions

During 2013, the Company closed on 15 acquisitions of various regulated water and wastewater systems for a total aggregate net purchase price of $23,658. Assets acquired (primarily utility plant) totaled $67,403, and liabilities assumed totaled $43,745, including $25,654 of contributions in aid of construction and assumed debt of $12,673. Included in these totals was the Company's November 14, 2013 acquisition of all of the capital stock of Dale Service Corporation ("Dale"), a regulated wastewater utility company, for a total cash purchase price of $5,090 (net of cash acquired of $6,910), plus assumed liabilities. The Dale acquisition added approximately twenty thousand wastewater customers to the Company's existing water services footprint in Northern Virginia. The Dale acquisition was accounted for as a business combination; accordingly, operating results from November 14, 2013 were included in the Company's results of operations. The purchase price was allocated to the net tangible and intangible assets based upon their estimated fair values at the date of acquisition. The Company's regulatory practice has been followed whereby property, plant and equipment (rate base) is considered fair value for business combination purposes. Similarly, regulatory assets and liabilities acquired have been recorded at book value and are subject to regulatory approval where applicable. The acquired debt has been valued in a manner consistent with the Company's Level 3 pre-acquisition debt. (See Note 17) Non-cash assets acquired in the Dale acquisition (primarily utility plant) totaled $40,999; liabilities assumed totaled $35,909, including debt assumed of $12,570 and contributions of $19,163. The pro forma impact of this acquisition would not have been material to the Company's results of operations for the years ended December 31, 2013, 2012 and 2011, respectively.

During 2012, the Company closed on 10 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $44,560. Included in this total was the Company's May 1, 2012 acquisition of all of the capital stock of Aqua New York, Inc. for a total cash purchase price of $36,688 plus assumed liabilities. Assets acquired in the Aqua New York acquisition totaled $102,727, including $59,139 of plant, $27,400 of regulatory assets, and $12,181 of goodwill; liabilities assumed totaled $66,039, including long-term debt of $25,215, $11,885 of regulatory liabilities, $15,424 of deferred taxes, $1,708 of other liabilities, $1,060 of contributions in aid of construction and $9,710 of pension and postretirement welfare liabilities. Assets acquired (primarily utility plant) in the other nine acquisitions during 2012 totaled $12,514; liabilities assumed totaled $4,642.

During 2011, the Company closed on nine acquisitions of regulated water and wastewater systems for an aggregate purchase price of $7,220. The purchase price for each acquisition was allocated to the net tangible and intangible assets based upon their estimated fair values at the acquisition date. Assets acquired totaled $12,919, of which $12,814 was utility plant. Liabilities assumed totaled $4,945, including contributions in aid of construction of $3,847 . The Company recorded gains on acquisitions during 2011 totaling $754.

Divestitures

In January 2012, the Company completed the sale of its Arizona and New Mexico subsidiaries. After post-close adjustments, net proceeds from the sale totaled $458,860, and the Company recorded a pretax loss on sale of $2,198.

In May 2012, the Company completed the sale of its Ohio subsidiary. After post-close adjustments, net proceeds from the sale totaled $102,154, and the Company recorded a pretax loss on sale of $4,095.

In December 2011, the Company completed the sale of its Applied Water Management subsidiary, part of its Market-Based Operations segment. Proceeds from the sale totaled $2,923. The Company recorded a pretax loss on sale of $3,126 in 2011. In 2012, the Company recorded an additional pretax loss of $114 for certain post-close adjustments.

In June 2011, the Company completed the sale of the assets of its Texas subsidiary for proceeds of $6,245. In the first quarter of 2011, the Company recognized an after-tax impairment charge of $552 for parent company goodwill allocated to the Texas subsidiary.

Operating results and the financial position of the five subsidiaries named above are included in the accompanying financial statements as discontinued operations.

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

	Years Ended December31,		
	2013	2012	2011
Operating revenues	$ 0	$ 19,377	$ 173,447
Total operating expenses, net	0	27,630	147,012
Operating income (loss)	0	(8,253)	26,435
Other income (expense), net	0	(168)	(270)
Income (loss) from discontinued operations before tax	0	(8,421)	26,165
Provision for income taxes	0	7,759	21,481
Income (loss) from discontinued operations, net of tax	$ 0	$ (16,180)	$ 4,684

The provision for income taxes of discontinued operations includes the recognition of tax expense related to the difference between the tax basis and book basis of assets upon the sales of the 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.

There were no assets or liabilities of discontinued operations in the accompanying Consolidated Balance Sheets at December 31, 2013 and 2012.

Note 4: Utility Plant

The components of utility plant by category at December 31 are as follows:

	Range of Remaining Useful Lives	2013	2012
Water plant			
Land and other non-depreciable assets		$ 132,295	$ 129,953
Sources of supply	11 to 127 Years	659,249	623,015
Treatment and pumping facilities	3 to 101 Years	3,006,140	2,944,178
Transmission and distribution facilities	9 to 116 Years	7,489,208	7,033,958
Services, meters and fire hydrants	9 to 93 Years	2,898,293	2,729,679
General structures and equipment	3 to 112 Years	995,186	865,992
Wastewater plant	2 to 115 Years	683,112	565,894
Construction work in progress		275,202	349,496
		16,138,685	15,242,165
Less accumulated depreciation		3,894,326	3,657,221
		$ 12,244,359	$ 11,584,944

Utility plant depreciation expense of continuing operations amounted to $337,653 in 2013, $314,639 in 2012 and $268,987 in 2011. The Company's regulated utility subsidiaries record depreciation in conformity with amounts approved by state regulators after regulatory review of information the Company submits to support its estimates of the assets' remaining useful lives.

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.94 % in 2013 and 2012 and 2.68% in 2011.

Note 5: Allowance for Uncollectible Accounts

The following table summarizes the changes in the Company's allowances for uncollectible accounts:

	2013	2012	2011
Balance at January 1	$ (26,874)	$ (18,905)	$ (21,128)
Amounts charged to expense	(26,953)	(26,701)	(19,952)
Amounts written off	23,914	22,607	24,741
Recoveries of amounts written off	(4,040)	(3,875)	(2,566)
Balance at December 31	$ (33,953)	$ (26,874)	$ (18,905)

Note 6: Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Except for income taxes, regulatory assets are excluded from the Company's rate base and generally do not earn a return. The components of regulatory assets at December 31 are as follows:

	2013	2012
Income taxes recoverable through rates	$ 242,902	$ 242,653
Debt and preferred stock expense	72,349	73,474
Deferred pension expense	109,799	326,578
Deferred other postretirement benefit expense	3,653	167,414
Deferred security costs	139	2,240
Deferred business services project expense	7,763	8,226
Deferred tank painting costs	33,519	31,526
Deferred rate case expense	9,407	11,614
Purchase premium recoverable through rates	60,787	60,241
Environmental remediation recoverable through rates	8,027	8,656
Coastal water project costs	16,826	21,175
San Clemente Dam project costs	44,404	31,403
Removal costs recoverable through rates	126,771	98,541
Other	122,119	115,373
	$ 858,465	$ 1,199,114

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the regulatory authorities of full normalization for rate making purposes. Full normalization requires no flow through of tax benefits to customers. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain subsidiaries. These costs will be recovered in future service rates as contributions are made to the pension plan. The Company also has regulatory assets of $ 90,380 and $294,136 at December 31, 2013 and 2012, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

Postretirement benefit expense in excess of the amount recovered in rates through 1997 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service and will be recovered as authorized by the Company's regulatory authorities. The Company also has regulatory assets of $3,113 and $166,379 at December 31, 2013 and 2012, respectively, which is the portion of the underfunded status that is probable of recovery through rates in future periods.

The costs of additional security measures that were implemented to protect facilities after the terrorist attacks on September 11, 2001 have been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service by certain subsidiaries. These costs are being recovered over periods ranging from five to ten years from the time of regulatory approval.

Business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that began operations in 2001. These costs are recognized in the rates charged for water service by certain subsidiaries.

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from five to 15 years, as authorized by the regulatory authorities in their determination of rates charged for service.

The Company amortizes rate case expenditures over regulatory approved amortization periods, typically three years. Rate case proceeding expenditures probable of future recovery are deferred.

Purchase premium recoverable through rates is primarily the recovery of the acquisition premiums related to an asset acquisition by the Company's California subsidiary during 2002, and acquisitions in 2007 by the Company's New Jersey subsidiary. As authorized for recovery by the California and New Jersey Regulators, these costs are being amortized to operations through November 2048.

Environmental remediation recoverable through rates is the recovery of costs incurred by the Company's California subsidiary under a settlement agreement entered into with NOAA to improve habitat conditions in the Carmel River Watershed.

Coastal water project costs include preliminary costs associated with the studying, testing and design of alternatives to help solve water supply shortages in Monterey, California. Coastal water project costs incurred through December 31, 2010 have been reviewed and approved for recovery through a surcharge. Costs deferred during 2013, 2012 and 2011 totaled $1,299, $1,987 and $2,528, respectively. The Company believes it is probable that the costs incurred since the last rate review will also be recoverable.

San Clemente Dam project costs represent costs incurred and deferred by the Company's California subsidiary pursuant to its efforts to investigate alternatives to strengthen or remove the dam due to potential earthquake and flood safety concerns. In June 2012, the California Public Utility Commission ("CPUC") issued a decision authorizing implementation of a project to reroute the Carmel River and remove the San Clemente Dam. The project includes the Company's California subsidiary, the California State Conservancy and the National Marine Fisheries Services. Under the order's terms, the CPUC has authorized recovery of all previous pre-construction costs incurred by the Company's subsidiary, and has authorized additional expenditures to be capped at $49,000 for the reroute and dam removal efforts and $2,500 for estimated interim dam safety measures. All pre-construction costs, totaling $24,303, are to be recovered via a surcharge over a 20-year period beginning October 2012; surcharge collections in 2013 and 2012 totaled $3,753 and $894, respectively. Costs deferred in addition to the pre-construction costs totaled $12,394 and $7,994 as of December 31, 2013 and 2012, respectively.

Other regulatory assets include certain deferred employee benefit costs as well as various regulatory balancing accounts which are deferred because the amounts are being recovered in rates or are probable of recovery through rates in future periods.

The components of regulatory liabilities at December 31 are as follows:

	2013	2012
Removal costs recovered through rates	$ 301,537	$ 285,901
Other	71,782	78,280
	$ 373,319	$ 364,181

Removal costs recovered through rates are retirement costs recovered during the life of the associated assets. In December 2008, the Company's subsidiary in New Jersey, at the direction of the New Jersey Regulator, began to amortize $48,000 of the total balance into operations via straight line amortization through November 2048.

Other regulatory liabilities include legal settlement proceeds, deferred gains, future customer refunds, and various regulatory balancing accounts.

Note 7: Goodwill

The Company's annual impairment reviews are performed as of November 30 of each year, in conjunction with the completion of the Company's annual strategic business plan. At November 30, 2013, the Company's goodwill was $ 1,207,741. The Company also undertakes interim reviews 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.

In September 2011, the FASB issued revised guidance intended to simplify how an entity tests goodwill for impairment. The amendments allow an entity first to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption was permitted.

The Company completed a quantitative fair value measurement of its reporting units when performing its goodwill impairment analysis on November 30, 2011. As of the 2011 testing date, a quantitative assessment was made and implied that the fair value of the Company's reporting units was well in excess of their carrying amount and no impairment was required.

The Company decided to adopt the new guidance for its 2012 annual test and applied the qualitative test ("step 0" or "step 0 test") to its reporting units for the annual impairment test performed as of November 30, 2012. No impairment measurement was deemed required.

In the current-year qualitative step 0 test at November 30, 2013, after assessing various events and circumstances that would affect the estimated fair value of the reporting units in its base line November 30, 2011 quantitative test, the Company has determined that it is not required to calculate the fair value of its reporting units at November 30, 2013. The Company has determined that it is more likely than not that its reporting unit fair values are greater than the reporting unit carrying values and no impairment is necessary.

There can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable water utilities, the lack of an increase in the Company's market price consistent with its peer companies or decreases in control premiums. A decline in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in the Company's interest rates, could also result in an impairment charge.

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

	Regulated Unit		**Market-Based Units**		**Consolidated**		
	Cost	**Accumulated Impairment**	**Cost**	**Accumulated Impairment**	**Cost**	**Accumulated Impairment**	**Net**
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	12,181	0	0	0	12,181	0	12,181
Balance at December 31, 2012	$ 3,411,549	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,647,539	$ (2,440,289)	$ 1,207,250
Goodwill from acquisitions	428	0	0	0	428	0	428
Reclassifications and other activity	86	0	0	0	86	0	86
Balance at December 31, 2013	$ 3,412,063	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,648,053	$ (2,440,289)	$ 1,207,764

Note 8: 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 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 December 31, 2013, there were 4,655 shares available for future issuance under the DRIP. The following table summarizes information regarding issuances under the DRIP for the years ended December 31, 2013 and 2012:

	2013	**2012**
Shares of common stock issued	53	60
Cash proceeds received	$ 2,171	$ 2,106

Cash dividend payments made during 2013 and 2012 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
December 31	0.28	0.50
Total dividends paid, three months ended:		
March 31	$ 0	$ 40,414
June 30	49,744	40,529
September 30	49,810	44,080
December 31	49,896	88,436

On December 13, 2013, the Company declared a quarterly cash dividend of $0.28 per share, payable on March 3, 2014 to all shareholders of record as of February 3, 2014. As of December 31, 2013, the Company had accrued dividends totaling $49,909 included in other current liabilities on the accompanying Consolidated Balance Sheets.

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax:

	Defined Benefit Plans				Total
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Foreign Currency Translation	Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2012	$ (116,758)	$ 363	$ 14,938	$ 3,780	$ (97,677)
Other comprehensive income (loss) before reclassifications	(26,425)	0	0	434	(25,991)
Amounts reclassified from accumulated other comprehensive income	0	176	7,301	0	7,477
Other comprehensive income (loss) for the period	(26,425)	176	7,301	434	(18,514)
Ending balance at December 31, 2012	$ (143,183)	$ 539	$ 22,239	$ 4,214	$ (116,191)
Other comprehensive income (loss) before reclassifications	73,472	0	0	(1,001)	72,471
Amounts reclassified from accumulated other comprehensive income	0	174	8,911	0	9,085
Other comprehensive income (loss) for the period	73,472	174	8,911	(1,001)	81,556
Ending balance at December 31, 2013	$ (69,711)	$ 713	$ 31,150	$ 3,213	$ (34,635)

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"). The total aggregate number of shares of common stock that may be issued under the Plan is 15,500. As of December 31, 2013, a total of 9,612 shares are 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 years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Stock options	$ 3,170	$ 3,282	$ 3,182
Restricted stock units	8,718	7,658	6,340
Employee stock purchase plan	586	530	486
Stock-based compensation in operation and maintenance expense	12,474	11,470	10,008
Income tax benefit	(4,865)	(4,473)	(3,903)
After-tax stock-based compensation expense	$ 7,609	$ 6,997	$ 6,105

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2013, 2012 and 2011.

The cost of services received from employees in exchange for the issuance of stock options and restricted stock awards is measured based on the grant date fair value of the awards issued. The value of stock options and restricted stock unit awards at the date of the grant is amortized through expense over the three-year service period. All awards granted in 2013, 2012 and 2011 are classified as equity.

The Company receives a tax deduction based on the intrinsic value of the award at the exercise date for stock options and the distribution date for restricted stock units. For each award, throughout the requisite service period, the Company recognizes the tax benefit s, which have been included in deferred tax assets, related to compensation costs. The tax deductions in excess of the benefits recorded throughout the requisite service period are recorded to shareholders' equity or the income statement and are included in the financing section of the statement of cash flows.

The Company stratified its grant populations and used historic employee turnover rates to estimate employee forfeitures. The estimated rate is compared to the actual forfeitures at the end of the period and adjusted as necessary.

Stock Options

In 2013, 2012 and 2011, 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 on January 1 of the year of grant. These awards have no performance vesting conditions and the grant date fair value i s 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 for grants and the resulting weighted-average grant date fair value per share of stock options granted in the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Dividend yield	2.52%	2.70%	3.25%
Expected volatility	23.50%	28.35%	29.32%
Risk-free interest rate	0.70%	0.78%	1.93%
Expected life (years)	4.3	4.4	4.4
Exercise price	$ 39.60	$ 34.14	$ 27.08
Grant date fair value per share	$ 5.78	$ 6.11	$ 5.14

The Company utilized the "simplified method" to determine the expected stock option life due to insufficient historical experience to estimate the exercise patterns of the stock options granted. The Company began granting stock options at the time of its initial public offering in April 2008. Expected volatility is based on a weighted average of historic volatilities of traded common stock of peer companies (regulated water companies) over the expected term of the stock options and historic volatilities of the Company's common stock during the period it has been publicly traded. The dividend yield is based on the Company's expected dividend payments and the stock price on the date of grant. The risk-free interest rate is the market yield on U.S. Treasury strips with maturities similar to the expected term of the stock options. The exercise price of the stock options is equal to the fair market value of the underlying stock on the date of option grant. Stock options vest over periods ranging from one to three years and expire seven years from the effective date of the grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model.

The value of stock options at the date of the grant is amortized through expense over the requisite service period using the straight-line method. As of December 31, 2013, $2,226 of total unrecognized compensation cost related to nonvested stock options is expected to be recognized over the remaining weighted-average period of 1.4 years. The total grant date fair value of stock options vested during the years ended December 31, 2013, 2012 and 2011 was $3,512, $3,219, and $4,578, respectively.

The table below summarizes stock option activity for the year ended December 31, 2013:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January1, 2013	2,635	$ 25.77		
Granted	348	39.60		
Forfeited or expired	(68)	33.69		
Exercised	(860)	23.49		
Options outstanding at December 31, 2013	2,055	$ 28.80	4.0	$ 27,660
Exercisable at December 31, 2013	1,187	$ 24.48	3.1	$ 21,098

The following table summarizes additional information regarding stock options exercised during the years ended December 31, 201 3, 2012 and 2011:

	2013	2012	2011
Intrinsic value	$ 15,102	$ 14,515	$ 3,026
Exercise proceeds	20,211	22,112	8,991
Income tax benefit	4,383	4,017	511

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 2013, 2012 and 2011, the Company granted restricted stock units , both with and without performance conditions to certain employees under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1 of the year of the grant and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1 of the year of grant (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.

During 2013, 2012 and 2011, the Company granted restricted stock units to non-employee directors under the Plan. The restricted stock units vested on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (a) 15 months after grant date or (b) the participant's separation from service. Because these restricted stock units vested on grant date, the to tal grant date fair value was recorded in operation and maintenance expense included in the expense table above on the grant date.

Restricted stock units generally vest over periods ranging from one to three years. 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. Restricted stock units granted with market conditions are valued using a Monte Carlo model. Expected volatility is based on historical volatilities of traded common stock of the Company and comparative companies using daily stock prices over the past three years. The expected term is three years and the risk-free interest rate is based on the three-year U.S. Treasury rate in effect as of the measurement date. The following table presents the weighted-average assumptions used in the Monte Carlo simulation and the weighted-average grant date fair values of restricted stock units granted during the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Expected volatility	19.37%	22.47%	29.50%
Risk-free interest rate	0.40%	0.43%	1.24%
Expected life (years)	3	3	3
Grant date fair value per share	$ 40.13	$ 37.40	$ 29.95

The grant date fair value of restricted stock 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 December 31, 2013, $4,877 of total unrecognized compensation cost related to the nonvested restricted stock units is expected to be recognized over the weighted-average remaining life of 1.4 years. The total grant date fair value of restricted stock units vested during the years ended December 31, 2013, 2012 and 2011 was $8,891, $4,191 and $2,040, respectively.

The table below summarizes restricted stock unit activity for the year ended December 31, 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	(23)	37.51
Cancelled	(19)	21.98
Non-vested total at December 31, 2013	539	$ 36.27

The following table summarizes additional information regarding restricted stock units distributed during the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Intrinsic value	$ 13,983	$ 6,159	$ 2,068
Income tax benefit	2,049	799	99

If dividends are paid with respect to shares of the Company's common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $648, $1,168 and $921 to retained earnings during the years ended December 31, 2013, 2012 and 2011, respectively.

Employee Stock Purchase Plan

Under the Company's Nonqualified Employee Stock Purchase Plan ("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 December 31, 2013 there were 1,363 shares of common stock reserved for issuance under the ESPP. The Company's ESPP is considered compensatory. During the years ended December 31, 2013, 2012 and 2011, the Company issued 111, 118 and 121 shares, respectively, under the ESPP.

Note 9: Preferred Stock Without Mandatory Redemption Requirements

Certain preferred stock agreements do not require annual sinking fund payments or redemption except at the option of the subsidiaries . The Company had preferred stock yielding 4.50% totaling $1,720 outstanding at December 31, 2012. The Company elected to redeem that amount during 2013, accordingly none were outstanding at December 31, 2013.

The Company reflects its subsidiaries' preferred stock without mandatory redemption requirements, which represents the Company's noncontrolling interest, in the total stockholders' equity section of the accompanying Consolidated Balance Sheets. The dividends on these preferred shares have not been reflected as income attributable to noncontrolling interest in the Consolidated Statements of Operations and Comprehensive Income as the total amount of these dividends is not considered material. The dividends issued were $19 for 2013, $153 for 2012 and $224 for 2011. The amounts have been included as a component of other income (expenses) in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Note 10: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures of the regulated subsidiaries. The components of long-term at December 31 are:

	Rate	Weighted Average Rate	Maturity Date	2013	2012
Long-term debt of American Water Capital Corp. ("AWCC")(a)					
Private activity bonds and government funded debt					
Fixed rate	2.30%-6.75%	5.63%	2018-2040	$ 330,732	$ 322,610
Senior notes					
Fixed rate	3.85%-8.27%	5.69%	2016-2042	3,312,761	3,389,399
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate (b)	0.00%-6.20%	4.68%	2014-2041	863,716	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%	8.60%	2019-2036	18,902	20,552
Notes payable and other(c)	12.17%	12.17%	2026	913	1,272
Long-term debt				5,203,524	5,278,302
Unamortized debt, net(d)				35,984	39,272
Fair value adjustment to interest rate hedge				4,724	7,715
Total long-term debt				$ 5,244,232	$ 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 at December 31, 2013 $11,920 of variable rate debt with variable-to-fixed rate interest swaps paying between 3.93% and 4.72% per annum. This debt was assumed via acquisitions in 2013 (see below).
(c) Includes capital lease obligations of $913 and $1,049 at December 31, 2013 and 2012, respectively.
(d) Primarily fair value adjustments previously recognized in acquisition purchase accounting.

All $676,500 of the subsidiaries' mortgage bonds and $790,817 of the $863,716 total subsidiaries' private activity bonds and government funded debt are collateralized by utility plant.

Long-term debt indentures contain a number of covenants that, among other things, limit, subject to certain exceptions, the Company from issuing debt secured by the Company's assets. Certain long term notes require the Company to maintain a ratio of consolidated total indebtedness to consolidated total capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2013 was 0. 55 to 1.00. In addition, the Company has $1,282,387 of notes which include the right to redeem the notes at par in whole or in part from time to time subject to certain restrictions.

The future sinking fund payments and maturities are as follows:

Year	Amount
2014	$ 14,174
2015	60,655
2016	52,901
2017	572,314
2018	473,648
Thereafter	$ 4,029,832

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp.	Senior notes—fixed rate	3.85%	2024	$ 400,000
American Water Capital Corp. (1)	Private activity bonds and government funded debt—fixed rate	2.30%-2.90%	2021-2030	8,122
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.59-2.41%	2031-2033	2,737
Total issuances				$ 410,859

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(1) Included in the issuance amounts for AWCC private activity bonds and government funded debt above was $6,702, which was initially kept in Trust pending the Company's certification that it has incurred qualifying capital expenditures. These issuances have been presented as non-cash in the accompanying Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of these funds by the applicable Trust are reflected as the release of restricted funds and are included in investing activities in the accompanying Consolidated Statements of Cash Flows.

The Company incurred debt issuance costs of $3,377 related to the above issuances. The Company also assumed debt of $12,673 via acquisitions during 2013.

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

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp. (2)	Senior notes—fixed rate	5.39%-10.00%	2013-2017	$ 476,638
Other subsidiaries(3)	Private activity bonds and government funded debt—fixed rate	0.00%-5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds—fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Notes payable and other			359
Total retirements and redemptions				$ 498,310

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(2) In September 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, which were satisfied during the fourth quarter of 2013. At that time, the Company repurchased $225,800 in aggregate principal amount of Notes that were validly tendered. The Company paid $271,798 to effect the tender, which, in addition to the principal, included $6,603 of accrued interest, a repurchase premium of $39,395, write-off of unamortized debt issuance costs of $525 and transaction fees of $663. The sum of the repurchase premium, the debt issuance amortization and transaction fees equaled the loss on debt extinguishment of $40,583, which is disclosed separately on the accompanying Consolidated Statement of Operations.

(3) Includes $3,565 of non-cash defeasance via the use of restricted funds.

Interest, net includes interest income of approximately $11,753 , $12,652 and $10,942 in 2013, 2012 and 2011, respectively.

One of the principal market risks to which the Company is exposed is changes in interest rates. In order to manage the exposure, the Company follows risk management policies and procedures, including the use of derivative contracts such as swaps. The Company reduces exposure to interest rates by managing commercial paper and debt maturities. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments. The derivative contracts entered into are for periods consistent with the related underlying exposures. The Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. The Company minimizes the counterparty credit risk on these transactions by dealing only with leading, credit-worthy financial institutions having long-term credit ratings of "A" or better.

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 as of December 31, 2013 and 2012 and the line item in the Consolidated Balance Sheet in which such amount is recorded:

Balance sheet classification	**2013**	**2012**
Regulatory and other long-term assets		
Other	$ 4,776	$ 7,909
Long-term debt		
Long-term debt	4,724	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 for the years ended December 31 as follows:

Income Statement Classification	**2013**	**2012**	**2011**
Interest, net			
Gain (loss) on swap	$ (3,133)	$ 2,085	$ 6,722
(Loss) gain on borrowing	2,991	(1,604)	(6,455)
Hedge ineffectiveness	(142)	481	267

Note 11: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $630,307 (net of discount of $193) and $269,985 (net of discount of $15) at December 31, 2013 and 2012, respectively. Included in the 2013 balance was $ 221,000 of borrowings with maturities greater than three months, all of which will mature during the first quarter of 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 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.

AWCC had the following available capacity under its commercial paper program at December 31:

	2013	**2012**
Commercial paper program	$ 1,000,000	$ 700,000
Commercial paper program available capacity	369,500	430,000

At December 31, AWCC had the following sub-limits and available capacity under each applicable credit facility:

	2013	**2012**
Letter of credit sublimit	$ 150,000	$ 150,000
Letter of credit available capacity	108,215	117,137

At December 31, 2013, the Company had $ 41,785 of outstanding letters of credit, all of which were issued under the revolving credit facility noted above. At December 31, 2012, the Company had $34,148 of outstanding letters of credit, $32,863 of which was issued under the revolving credit facility noted above.

The following table presents the short-term borrowing activity for AWCC for the years ended December 31, 2013 and 2012:

	2013	**2012**
Average borrowings	$ 432,064	$ 277,952
Maximum borrowings outstanding	1,129,250	534,700
Weighted average interest rates, computed on a daily basis	0.37%	0.49%
Weighted average interest rates, at December 31	0.36%	0.46%

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio at December 31, 2013 was 0.55 to 1.00.

None of the Company’s borrowings are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under the Company’s credit facility.

As part of the normal course of business, the Company routinely enters contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on the Company’s net position with the counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company’s situation at the time of the demand. If the Company can reasonably claim that it is willing and financially able to perform its obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient. The Company does not expect to post any collateral which will have a material adverse impact on the Company’s results of operations, financial position or cash flows.

Note 12: General Taxes

Components of general tax expense from continuing operations for the years ended December 31 are as follows:

	2013	2012	2011
Gross receipts and franchise	$ 96,044	$ 92,612	$ 90,674
Property and capital stock	94,448	84,513	77,330
Payroll	31,375	32,724	31,705
Other general	12,775	11,363	10,769
	$ 234,642	$ 221,212	$ 210,478

Note 13: Income Taxes

Components of income tax expense from continuing operations for the years ended December 31 are as follows:

	2013	2012	2011
State income taxes:			
Current	$ 7,202	$ 26,604	$ (7,440)
Deferred			
Current	(405)	(280)	(171)
Non-current	26,821	24,256	44,576
	$ 33,618	$ 50,580	$ 36,965
Federal income taxes:			
Current	$ (19,995)	$ 31,482	$ 12,239
Deferred			
Current	(1,324)	(2,031)	(314)
Non-current	225,408	178,495	151,403
Amortization of deferred investment tax credits	(1,501)	(1,518)	(1,542)
	202,588	206,428	161,786
	$ 236,206	$ 257,008	$ 198,751

A reconciliation of income tax expense from continuing operations at the statutory federal income tax rate to actual income tax expense for the years ended December 31 is as follows:

	2013	2012	2011
Income tax at statutory rate	$ 211,914	$ 220,940	$ 176,288
Increases (decreases) resulting from:			
State taxes, net of federal taxes	21,852	32,877	24,027
Change in valuation allowance	(455)	143	(160)
Flow through differences	3,217	3,032	2,895
Amortization of deferred investment tax credits	(1,501)	(1,518)	(1,542)
Subsidiary preferred dividends	584	634	668
Other, net	595	900	(3,425)
Actual income tax expense	$ 236,206	$ 257,008	$ 198,751

The following table provides the components of the net deferred tax liability from continuing operations at December 31:

	2013	2012
Deferred tax assets:		
Advances and contributions	$ 510,122	$ 485,815
Deferred investment tax credits	10,027	10,610
Other postretirement benefits	107,773	100,301
Tax losses and credits	265,640	229,423
Pension benefits	122,143	113,919
Unamortized debt discount, net	20,249	21,711
Other	23,888	22,835
	1,059,842	984,614
Valuation allowance	(13,555)	(19,520)
	$ 1,046,287	$ 965,094
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	$ 2,478,617	$ 2,168,680
Income taxes recoverable through rates	81,135	82,400
Deferred security costs	58	921
Deferred business services project expenses	4,584	4,580
Deferred other postretirement benefits	65,071	57,895
Deferred pension benefits	169,336	102,847
Other	69,574	93,284
	2,868,375	2,510,607
	$(1,822,088)	$(1,545,513)

At December 31, 2013 and 2012, the Company recorded federal net operating loss ("NOL") carryforwards of $1,182,075 and $1,047,786, respectively. The 2013 balance includes $16,484 of windfall tax benefits on stock-based compensation that will not be recorded to equity until the benefit is realized. The Company believes the federal NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company evaluated its ability to fully utilize the existing federal NOL carryforwards in light of the RWE divestiture in November 2009. Under Internal Revenue Code ("I.R.C.") Section 382, an ownership change occurs if there is a greater than fifty percent (50%) change in equity ownership of a company over a three-year period determined by reference to the ownership of persons holding five percent (5%) or more of that company's equity securities. If a company undergoes an ownership change as defined by I.R.C. Section 382, the company's ability to utilize its pre-change NOL carryforwards to offset post-change income may be limited.

The Company believes that the limitation imposed by I.R.C. Section 382 generally should not preclude use of its federal NOL carryforwards, assuming the Company has sufficient taxable income in future carryforward periods to utilize those NOL carryforwards. The Company's federal NOL carryforwards do not begin expiring until 2028.

At December 31, 2013 and 2012, the Company had state NOLs of $ 628,049 and $663,429, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOL carryforwards will expire between 2014 and 2033.

At December 31, 2013 and 2012, the Company had Canadian NOL carryforwards of $ 6,323 and $5,703, respectively. The majority of these carryforwards are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The Canadian NOL carryforwards will expire between 2014 and 2033.

The Company had capital loss carryforwards for federal income tax purposes of $3,844 and $4,357 at December 31, 2013 and 2012, respectively. The Company has recognized a full valuation allowance for the capital loss carryforwards because the Company does not believe these losses are more likely than not to be recovered.

The Company files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local or non-U.S income tax examinations by tax authorities for years before 2007.

The Company has state income tax examinations in progress and does not expect material adjustments to result.

The Patient Protection and Affordable Care Act (the "PPACA") became law on March 23, 2010, and the Health Care and Education Reconciliation Act of 2010 became law on March 30, 2010, which makes various amendments to certain aspects of the PPACA (together, the "Acts"). The PPACA effectively changes the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. The Acts effectively make the subsidy payments taxable in tax years beginning after December 31, 2012 and as a result, the Company followed its original accounting for the underfunded status of the other postretirement benefits for the Medicare Part D adjustment and recorded a reduction in deferred tax assets and an increase in its regulatory assets amounting to $6,241 and $6,432 at December 31, 2013 and 2012, respectively.

The following table summarizes the changes in the Company's gross liability, excluding interest and penalties, for unrecognized tax benefits:

Balance at January 1, 2012	$ 158,578
Increases in current period tax positions	40,620
Decreases in prior period measurement of tax positions	(18,205)
Balance at December 31, 2012	$ 180,993
Increases in current period tax positions	27,229
Decreases in prior period measurement of tax positions	(30,275)
Balance at December 31, 2013	$ 177,947

During the second quarter of 2013, the Company adopted updated income tax guidance, and as a result, reclassified as of December 31, 2012 $74,360 of unrecognized tax benefit from other long-term liabilities to deferred income taxes to conform to the current presentation in the accompanying Consolidated Balance Sheets. The total balance in the table above does not include interest and penalties of $242 and $260 as of December 31, 2013 and 2012, respectively, which is recorded as a component of income tax expense. The majority of the increased tax position is attributable to temporary differences. The increase in 2013 current period tax positions related primarily to the Company's change in tax accounting method filed in 2008 for repair and maintenance costs on its utility assets. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. If the Company sustains all of its positions at December 31, 2013 and 2012, an unrecognized tax benefit of $7,439 and $7,532, respectively, excluding interest and penalties, would impact the Company's effective tax rate.

The following table summarizes the changes in the Company's valuation allowance:

Balance at January 1, 2011	$ 23,788
Increases in current period tax positions	1,525
Decreases in current period tax positions	(3,734)
Balance at December 31, 2011	$ 21,579
Increases in current period tax positions	0
Decreases in current period tax positions	(2,059)
Balance at December 31, 2012	$ 19,520
Increases in current period tax positions	0
Decreases in current period tax positions	(5,965)
Balance at December 31, 2013	$ 13,555

Included in 2013 is a discrete tax benefit totaling $2,979 associated with an entity re-organization within the Company's Market-Based segment that allowed for the utilization of state net operating loss carryforwards and the release of an associated valuation allowance.

Note 14: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering eligible employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for all employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan. The Company does not participate in a multiemployer plan.

The Company's pension funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, the Company will consider additional contributions if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006. The Company may also consider increased contributions, based on other financial requirements and the plans' funded position. Pension plan assets are invested in a number of actively managed and indexed investments including equity and bond mutual funds, fixed income securities, guaranteed interest contracts with insurance companies and real estate investment trusts ("REITs").

Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. (See Note 6)

The Company also has unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains other postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company's policy is to fund other postretirement benefit costs for rate-making purposes. Assets of the plans are invested in equity mutual funds, bond mutual funds and fixed income securities.

The obligations of the plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future, the investment strategy is to allocate a significant percentage of assets to equities, which the Company believes will provide the highest return over the long-term period. The fixed income assets are invested in long duration debt securities and may be invested in fixed income instruments, such as futures and options, in order to better match the duration of the plan liability.

The Company periodically conducts asset liability studies to ensure the investment strategies are aligned with the profile of the plans' obligations.

None of the Company's securities are included in pension or other postretirement benefit plan assets.

The Company uses fair value for all classes of assets in the calculation of market-related value of plan assets by applying the fair value of the asset classes at the balance sheet date times the projected returns for that asset class.

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted-average credit rating of A or better by Standard & Poor's.

The investment policies' objectives are focused on reducing the volatility of the plans' funding status over a long term horizon.

The fair values and asset allocations of pension plan assets at December 31, 2013, by asset category, follow:

Asset Category	Target Allocation 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2013
Cash	—	$ 12,844	$ 12,844	$ —	$ —	—
Equity securities:						
U.S. large cap	24%	455,068	455,068	—	—	33%
U.S. small cap value	8%	139,571	139,571	—	—	10%
International	20%	295,226	615	294,611	—	21%
Fixed income securities:	40%					35%
U.S. Treasury and government bonds	—	81,200	76,222	4,978	—	—
Corporate bonds	—	209,500	—	209,500	—	—
Mortgage-backed securities	—	116,956	—	116,956	—	—
Long duration bond fund	—	5,177	5,177	—	—	—
Guaranteed annuity contracts	—	52,772	—	8,947	43,825	—
Real estate	6%	—	—	—	—	—
REITs	2%	15,307	—	15,307	—	1%
Total	100%	$ 1,383,621	$ 689,497	$ 650,299	$ 43,825	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) where transfers in (out) represent assets sold and benefit payments made during the year:

	Level 3
Balance, January 1, 2013	$ 173,625
Actual return on assets	10,384
Transfers in (out)	(140,184)
Balance, December 31, 2013	$ 43,825

The fair values and asset allocations of pension plan assets at December 31, 2012, by asset category, follow:

Asset Category	Target Allocation 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2012
Cash	—	$ 9,107	$ 9,107	$ —	$ —	—
Equity securities:						
U.S. large cap	29%	411,805	411,805	—	—	36%
U.S. small cap value	8%	139,389	139,389	—	—	12%
International	20%	255,126	—	128,953	126,173	22%
Fixed income securities:	35%					30%
U.S. Treasury and government bonds	—	62,311	60,558	1,753	—	—
Corporate bonds	—	73,254	—	73,254	—	—
Mortgage-backed securities	—	144,100	—	144,100	—	—
Long duration bond fund	—	5,690	5,690	—	—	—
Guaranteed annuity contracts	—	56,915	—	9,463	47,452	—
REITs	8%	—	—	—	—	—
Total	100%	$ 1,157,697	$ 626,549	$ 357,523	$ 173,625	100%

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) where transfers in (out) represent benefit payments made during the year:

	Level 3
Balance, January 1, 2012	$ 148,574
Actual return on assets	28,420
Transfers in (out)	(3,369)
Balance, December 31, 2012	$ 173,625

The Company's other postretirement benefit plans are partially funded and the assets are held under various trusts. The investments and risk mitigation strategies for the plans are tailored specifically for each trust. In setting new strategic asset mixes, consideration is given to the likelihood that the selected asset allocation will effectively fund the projected plan liabilities and the risk tolerance of the Company. The Company periodically updates the long-term, strategic asset allocations and uses various analytics to determine the optimal asset allocation. Considerations include plan liability characteristics, liquidity characteristics, funding requirements, expected rates of return and the distribution of returns.

In June 2012, the Company implemented a de-risking strategy for the medical bargaining trust within the plan to minimize volatility. As part of the de-risking strategy, the Company revised the asset allocations to increase the matching characteristics of assets relative to liabilities. The initial de-risking asset allocation for the plan was 60% return-generating assets and 40% liability-driven assets. The investment strategies and policies for the plan reflect a balance of liability driven and return-generating considerations. The objective of minimizing the volatility of assets relative to liabilities is addressed primarily through asset—liability matching, asset diversification and hedging. The fixed income target asset allocation matches the bond-like and long-dated nature of the postretirement liabilities. Assets are broadly diversified within asset classes to achieve risk-adjusted returns that in total lower asset volatility relative to the liabilities. The Company assesses the investment strategy regularly to ensure actual allocations are in line with target allocations as appropriate. Strategies to address the goal of ensuring sufficient assets to pay benefits include target allocations to a broad array of asset classes and, within asset classes strategies are employed to provide adequate returns, diversification and liquidity.

The assets of the Company's other trusts within the other postretirement benefit plans have been primarily invested in equities and fixed income index funds. The assets under the various other postretirement benefit trusts are invested differently based on the assets and liabilities of each trust. The obligations of the other postretirement benefit plans are dominated by obligations for the medical bargaining trust. Thirty-nine percent and five percent of the total postretirement plan benefit obligations are related to the medical non-bargaining and life insurance trusts, respectively. Because expected benefit payments related to the benefit obligations are so far into the future, and the size of the medical non-bargaining and life insurance trusts' obligations are large compared to each trusts' assets, the investment strategy is to allocate a significant portion of the assets' investment to equities, which the Company believes will provide the highest long-term return and improve the funding ratio.

The Company engages third party investment managers for all invested assets. Managers are not permitted to invest outside of the asset class (e.g., fixed income, equity, alternatives) or strategy for which they have been appointed. Investment management agreements and recurring performance and attribution analysis are used as tools to ensure investment managers invest solely within the investment strategy they have been provided. Futures and options may be used to adjust portfolio duration to align with a plan's targeted investment policy.

In order to minimize asset volatility relative to the liabilities, a portion of plan assets is allocated to fixed income investments that are exposed to interest rate risk. Increases in interest rates generally will result in a decline in the value of fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities. Within equities, risk is mitigated by constructing a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process

Actual allocations to each asset class vary from target allocations due to periodic investment strategy updates, market value fluctuations, the length of time it takes to fully implement investment allocation, and the timing of benefit payments and contributions. The asset allocation is rebalanced on a quarterly basis, if necessary.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2013, by asset category, follow:

Asset Category	**Target Allocation 2014**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Percentage of Plan Assets at December 31, 2013**
Bargain VEBA:						
Cash	—	$ 689	$ 689	$ —	—	—
Equity securities:						
U.S. large cap	18%	72,108	72,108	—	—	19%
U.S. small cap value	7%	26,574	26,574	—	—	7%
International	15%	55,888	55,888	—	—	15%
Fixed income securities:	60%					59%
U.S. Treasury securities and government bonds	—	95,010	91,578	3,432	—	—
Corporate bonds	—	117,843	—	117,843	—	—
Long duration bond fund	—	2,043	2,043	—	—	—
U.S. high yield bond fund	—	—	—	—	—	—
International bond fund	—	—	—	—	—	—
Future and option contracts (a)	—	620	620	—	—	—
Total bargain VEBA	100%	$ 370,775	$ 249,500	$ 121,275	—	100%
Non-bargain VEBA:						
Cash	—	$ 3,451	3,451	$ —	—	—
Equity securities:						
U.S. large cap	21%	41,430	41,430	—	—	43%
U.S. small cap value	21%	—	—	—	—	0%
International	28%	27,739	27,739	—	—	29%
Fixed income securities:						
Core fixed income bond fund	30%	23,563	23,563	—	—	28%
Total non-bargain VEBA	100%	$ 96,183	$ 96,183	$ —	—	100%
Life VEBA:						
Cash	—	$ 27	$ 27	$ —	—	—
Equity securities:						
U.S. large cap	70%	5,527	5,527	—	—	71%
Fixed income securities:						
Core fixed income bond fund	30%	2,206	2,206	—	—	29%
Total life VEBA	100%	$ 7,760	$ 7,760	$ —	—	100%
Total	100 %	$ 474,718	$ 353,443	$ 121,275	—	100 %

(a) Includes cash for margin requirements.

The fair values and asset allocations of postretirement benefit plan assets at December 31, 2012, by asset category, follow:

Asset Category	Target Allocation 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percentage of Plan Assets at December 31, 2012
Bargain Veba:						
Cash	—	$ 1,140	$ 1,140	$ —	—	—
Equity securities:						
U.S. large cap	16%	59,054	59,054	—	—	16%
U.S. small cap value	8%	26,965	26,965	—	—	8%
International	21%	77,837	38,647	39,190	—	21%
Emerging markets	7%	25,505	—	25,505	—	7%
Fixed income securities:	45%					45%
U.S. Treasury securities and government bonds	—	58,959	42,332	16,627	—	—
Corporate bonds	—	72,834	—	72,834	—	—
Long duration bond fund	—	1,273	1,273	—	—	—
US high yield bond fund	—	16,397	—	16,397	—	—
International bond fund	—	13,950	—	13,950	—	—
Future and option contracts (a)	—	1,410	1,410	—	—	—
REITs	3%	11,402	—	11,402	—	3%
Total bargain VEBA	100%	$ 366,726	$ 170,821	$ 195,905	—	100%
Non-bargain VEBA:						
Cash	—	$ 855	$ 855	$ —	—	1%
Equity securities:						
U.S. large cap	100%	58,436	58,436	—	—	99%
Total non-bargain VEBA	100%	$ 59,291	$ 59,291	$ —	—	100%
Life VEBA:						
Cash	—	$ 410	$ 410	$ —	—	6%
Equity securities:						
U.S. large cap	100%	6,813	6,813	—	—	94%
Total Life VEBA	100%	$ 7,243	$ 7,243	$ —	—	100%
Total	100%	$ 433,260	$ 237,355	$ 195,905	—	100%

(a) Includes cash for margin requirements.

Valuation Techniques Used to Determine Fair Value

Cash—Cash and investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash and are included in the recurring fair value measurements hierarchy as Level 1.

Equity securities—For equity securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, that the Company is able to independently corroborate. Equity securities are valued based on quoted prices in active markets and categorized as Level 1. Certain equities, such as international securities, are invested in commingled funds. These funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since net asset value is not directly observable for the commingled funds, they are categorized as Level 2.

Fixed-income securities—The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets that the Company can corroborate. The fair values of corporate bonds, mortgage backed securities, certain government bonds and a guaranteed annuity contract are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, and have been categorized as Level 2 because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate. Certain other guaranteed annuity contracts are categorized as Level 3 because the investments are not publicly quoted. The fund administrator values the fund using the net asset value per fund share, derived from the quoted prices in active markets of the underlying securities. Since these valuation inputs are not highly observable, these contracts have been categorized as Level 3. Exchange-traded future and option positions are reported in accordance with changes in daily variation margins that are settled daily. Exchange-traded options and futures, for which market quotations are readily available, are valued at the last reported sale price or official closing price on the primary market or exchange on which they are traded and are classified as Level 1.

REITs—REITs are invested in commingled funds. Commingled funds are valued to reflect the plan fund's interest in the fund based on the reported year-end net asset value. Since the net asset value is not directly observable for the commingled funds, they are categorized as Level 2.

The following table provides a rollforward of the changes in the benefit obligation and plan assets for the most recent two years for all plans combined:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Change in benefit obligation				
Benefit obligation at January 1	$ 1,621,244	$ 1,401,954	$ 687,082	$ 620,366
Service cost	37,872	34,209	15,282	14,207
Interest cost	68,096	70,866	28,700	31,570
Plan participants' contributions	—	—	2,514	2,394
Amendments	—	—	—	(1,758)
Actuarial (gain) loss	(180,688)	178,267	(148,410)	43,321
Divestitures	—	(73)	—	(94)
Curtailments	—	(3,460)	—	—
Settlements	—	(14,701)	—	—
Gross benefits paid	(52,392)	(45,818)	(25,263)	(24,910)
Federal subsidy	—	—	2,018	1,986
Benefit obligation at December 31	$ 1,494,132	$ 1,621,244	$ 561,923	$ 687,082
Change in Plan Assets				
Fair value of plan assets at January 1	$ 1,157,697	$ 981,068	$ 433,260	$ 382,670
Actual return on plan assets	208,821	138,560	36,202	42,981
Employer contributions	69,495	99,408	28,005	30,002
Plan participants' contributions	—	—	2,514	2,394
Settlements	—	(10,799)	—	—
Divestitures	—	(4,722)	—	123
Benefits paid	(52,392)	(45,818)	(25,263)	(24,910)
Fair value of plan assets at December 31	$ 1,383,621	$ 1,157,697	$ 474,718	$ 433,260
Funded status at December 31	$ (110,511)	$ (463,547)	$ (87,205)	$ (253,822)
Amounts recognized in the balance sheet consist of:				
Noncurrent asset	$ —	$ —	$ 1,271	$ 377
Current liability	(1,969)	(1,900)	(57)	(52)
Noncurrent liability	(108,542)	(461,647)	(88,419)	(254,147)
Net amount recognized	$ (110,511)	$ (463,547)	$ (87,205)	$ (253,822)

The following table provides the components of the Company's accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Net actuarial loss	$ 145,376	$ 483,626	$ 17,632	$ 183,087
Prior service cost (credit)	4,418	5,142	(14,519)	(16,708)
Net amount recognized	$ 149,794	$ 488,768	$ 3,113	$ 166,379
Regulatory assets	$ 90,380	$ 294,136	$ 3,113	$ 166,379
Accumulated other comprehensive income	59,414	194,632	—	—
	$ 149,794	$ 488,768	$ 3,113	$ 166,379

At December 31, 2013 and 2012, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets 2013	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets 2012
Projected benefit obligation	$1,494,000	$1,621,000
Fair value of plan assets	1,384,000	1,158,000

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets 2013	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets 2012
Accumulated benefit obligation	$ 43,000	$ 1,472,000
Fair value of plan assets	17,000	1,158,000

The accumulated postretirement benefit obligation exceeds plan assets for all of the Company's other postretirement benefit plans.

In August 2006, the Pension Protection Act ("PPA") was signed into law in the U.S. The PPA replaces the funding requirements for defined benefit pension plans by requiring that defined benefit plans contribute to 100% of the current liability funding target over seven years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being "at risk" and additional funding requirements and benefit restrictions may apply. The PPA was effective for the 2008 plan year with short-term phase-in provisions for both the funding target and at-risk determination. The Company's qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the PPA. The Company is proactively monitoring the plan's funded status and projected contributions under the law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for the qualified defined benefit pension plan are determined by government regulations and not by accounting pronouncements. The Company plans to contribute amounts at least equal to the greater of the minimum required contributions or the normal cost in 2014 to the qualified pension plans. The Company plans to contribute to its 2014 other postretirement benefit cost for rate-making purposes.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

	Pension Benefits	Other Benefits
2014 expected employer contributions		
To plan trusts	$ 37,191	$ 12,137
To plan participants	1,970	81

The Company made 2014 contributions to fund pension benefits and other benefits of $7,680 and $3,034, respectively, through February 2014.

The following table reflects the net benefits expected to be paid from the plan assets or the Company's assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2014	$ 64,519	$ 26,682	$ 2,170
2015	70,453	29,299	2,335
2016	75,924	31,837	2,514
2017	81,491	34,529	2,705
2018	86,616	37,265	2,890
2019—2023	499,770	215,648	17,804

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits			Other Benefits		
	2013	2012	2011	2013	2012	2011
Weighted-average assumptions used to determine December 31 benefit obligations						
Discount rate	5.12%	4.17%	5.02%	5.10%	4.16%	5.05%
Rate of compensation increase	3.15%	3.19%	3.25%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 7.00% in 2013 to 5% in 2019+	graded from 7.25% in 2012 to 5% in 2019+	graded from 7.50% in 2012 to 5% in 2019+
Weighted-average assumptions used to determine net periodic cost						
Discount rate	4.17%	5.02%	5.32%	4.16%	5.05%	5.27%
Expected return on plan assets	7.49%	7.75%	7.90%	6.99%	7.41%	7.60%
Rate of compensation increase	3.19%	3.25%	3.50%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from 7.25% in 2013 to 5% in 2019+	graded from 7.50% in 2012 to 5% in 2019+	graded from 8.00% in 2011 to 5% in 2017+

N/A—Assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. At year- end 2011, the Company began using an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. The yield curve was developed for a universe containing the majority of U.S.-issued AA-graded corporate bonds, all of which were non callable (or callable with make-whole provisions). Historically, for each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return, prior to administrative and investment management fees, for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company's pension expense increases as the expected return on assets decreases.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 7,367	$ (5,974)
Effect on other postretirement benefit obligation	$ 72,238	$ (60,261)

The following table provides the components of net periodic benefit costs for the years ended December 31:

	2013	2012	2011
Components of net periodic pension benefit cost			
Service cost	$ 37,872	$ 34,209	$ 33,641
Interest cost	68,096	70,866	69,047
Expected return on plan assets	(88,429)	(79,272)	(72,109)
Amortization of:			
Prior service cost (credit)	724	723	722
Actuarial (gain) loss	37,170	29,636	18,551
Settlement loss	—	7,135	—
Net periodic pension benefit cost	$ 55,433	$ 63,297	$ 49,852
Other changes in plan assets and benefit obligations recognized in other comprehensive income, net of tax			
Amortization of prior service credit (cost)	$ (174)	$ (176)	$ (175)
Current year actuarial (gain) loss	(73,472)	26,425	30,497
Amortization of actuarial gain (loss)	(8,911)	(7,301)	(4,504)
Total recognized in other comprehensive income	$ (82,557)	$ 18,948	$ 25,818
Total recognized in net periodic benefit cost and comprehensive income	$ (27,124)	$ 82,245	$ 75,670
Components of net periodic other postretirement benefit cost			
Service cost	$ 15,282	$ 14,207	$ 13,938
Interest cost	28,700	31,570	31,219
Expected return on plan assets	(30,285)	(28,711)	(28,779)
Amortization of:			
Prior service cost (credit)	(2,189)	(1,915)	(1,924)
Actuarial (gain) loss	11,128	9,537	7,133
Other	—	(696)	—
Net periodic other postretirement benefit cost	$ 22,636	$ 23,992	$ 21,587

The Company's policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements.

The estimated amounts that will be amortized from accumulated other comprehensive income and regulatory assets into net periodic benefit cost in 2014 are as follows:

	Pension Benefits	Other Benefits
Actuarial (gain) loss	$ (131)	$ (81)
Prior service cost (credit)	724	(2,189)
Total	$ 593	$ (2,270)

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. Plan expenses totaled $8,054 for 2013, $8,091 for 2012 and $7,273 for 2011, respectively. All of the Company's contributions are invested in one or more funds at the direction of the employee.

Note 15: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2013, the Company has accrued approximately $3,400 as probable costs and it is reasonably possible that additional losses could range up to $30,400 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company's military services agreements expire between 2051 and 2060 and have remaining performance commitments as measured by estimated remaining contract revenue of $ 1,988,000 at December 31, 2013. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company's Operations and Maintenance agreements with municipalities and other customers expire between 2014 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $928,000 at December 31, 2013. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legal and binding contractual obligations amounted to $263,766 at December 31, 2013.

The Company's regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. The Company's subsidiaries' purchased water expense under these types of agreements amounted to approximately $114,471, $115,426 and $104,384 during the years ended December 31, 2013, 2012 and 2011, respectively. The estimated annual commitment related to the minimum quantities of water purchased is expected to approximate $54,288 in 2014, $54,751 in 2015, $50,864 in 2016, $44,043 in 2017, $42,974 in 2018 and $468,523 thereafter.

Note 16: Earnings per Common Share

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

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

	Years Ended December 31,		
Basic	**2013**	**2012**	**2011**
Income from continuing operations	$ 369,264	$ 374,250	$ 304,929
Income (loss) from discontinued operations, net of tax	0	(16,180)	4,684
Net income	369,264	358,070	309,613
Less: Distributed earnings to common shareholders	150,038	214,541	158,708
Less: Distributed earnings to participating securities	60	86	68
Undistributed earnings	219,166	143,443	150,837
Undistributed earnings allocated to common shareholders	219,082	143,385	150,772
Undistributed earnings allocated to participating securities	84	58	65
Total income from continuing operations available to common shareholders, basic	$ 369,120	$ 374,106	$ 304,796
Total income available to common shareholders, basic	$ 369,120	$ 357,926	$ 309,480
Weighted-average common shares outstanding, basic	177,814	176,445	175,484
Basic earnings per share: (a)			
Income from continuing operations	$ 2.08	$ 2.12	$ 1.74
Income (loss) from discontinued operations, net of tax	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.08	$ 2.03	$ 1.76

(a) Amounts may not sum due to rounding.

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

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

	Years Ended December 31,		
Diluted	2013	2012	2011
Total income from continuing operations available to common shareholders, basic	$ 369,120	$ 374,106	$ 304,796
Income (loss) from discontinued operations, net of tax	0	(16,180)	4,684
Total income available to common shareholders, basic	369,120	357,926	309,480
Undistributed earnings for participating securities	84	58	65
Total income from continuing operations available to common shareholders, diluted	$ 369,204	$ 374,164	$ 304,861
Total income available to common shareholders, diluted	$ 369,204	$ 357,984	$ 309,545
Weighted-average common shares outstanding, basic	177,814	176,445	175,484
Common stock equivalents:			
Restricted stock units	510	618	556
Stock options	730	607	490
Employee stock purchase plan	2	1	1
Weighted-average common shares outstanding, diluted	179,056	177,671	176,531
Diluted earnings per share (a)			
Income from continuing operations	$ 2.06	$ 2.11	$ 1.73
Income (loss) from discontinued operations, net of tax	$ 0.00	$ (0.09)	$ 0.03
Net income	$ 2.06	$ 2.01	$ 1.75

(a) Amounts may not sum due to rounding.

The following potentially dilutive common stock equivalents were not included in the earnings per share calculations for the years ended December 31 because they were anti-dilutive:

	2013	2012	2011
Stock options	327	619	711
Restricted stock units where certain performance conditions were not met	20	19	22

Note 17: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted pric es in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- (BBB+ at December 31, 2012) debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments are as follows:

2013	**Carrying**	**At Fair Value as of December 31,**			
Recurring Fair Value Measures	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 18,827	$ 0	$ 0	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

2012	**Carrying**	**At Fair Value as of December 31,**			
Recurring Fair Value Measures	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 20,511	$ 0	$ 0	$ 27,263	$ 27,263
Long-term debt (excluding capital lease obligations)	5,303,729	2,400,847	1,677,776	2,252,272	6,330,895

Fair Value Measurements

To increase consistency and comparability in fair value measurements, FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds and money market funds.
- Level 2—inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.
- Level 3—unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of December 31, 2013 and 2012, respectively:

	At Fair Value as of December 31, 2013			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Restricted funds	$ 29,259	$ 0	0	$ 29,259
Rabbi trust investments	0	444	0	444
Deposits	1,901	0	0	1,901
Mark-to-market derivative asset	0	4,776	0	4,776
Total assets	31,160	5,220	0	36,380
Liabilities:				
Deferred compensation obligation	0	11,928	0	11,928
Mark-to-market derivative liability	0	1,276	0	1,276
Total liabilities	0	13,204	0	13,204
Total net assets (liabilities)	$ 31,160	$ (7,984)	0	$ 23,176

	At Fair Value as of December 31, 2012			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Restricted funds	$ 40,547	$ 0	0	$ 40,547
Rabbi trust investments	0	481	0	481
Deposits	2,103	0	0	2,103
Mark-to-market derivative asset	0	7,909	0	7,909
Total assets	42,650	8,390	0	51,040
Liabilities:				
Deferred compensation obligation	0	10,237	0	$ 10,237
Total liabilities	0	10,237	0	10,237
Total net assets (liabilities)	$ 42,650	$ (1,847)	0	$ 40,803

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to year end are classified as current.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional inve stments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

See Note 14 for the Company's fair value of qualified pension and postretirement welfare plans' assets.

Non-recurring Fair Value Measurements

As discussed in Note 7, the Company recognized continuing operations goodwill impairment charges of $0 for each of the years ended December 31, 2013, 2012 and 2011, respectively. The Company's goodwill valuation model includes significant unobservable inputs and falls within Level 3 of the fair value hierarchy.

Note 18: Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $24,301 for 2013, $28,149 for 2012 and $32,752 for 2011. The operating leases for facilities will expire over the next 20 years and the operating leases for equipment will expire over the next five years. Certain operating leases have renewal options ranging from one to five years.

At December 31, 2013, the minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are $15,898 in 2014, $13,396 in 2015, $10,921 in 2016, $9,949 in 2017, $8,048 in 2018 and $89,318 thereafter.

The Company has a series of agreements with various public entities (the "Partners") to establish certain joint ventures, commonly referred to as "public-private partnerships." Under the public-private partnerships, the Company constructed utility plant, financed by the Company, and the Partners constructed utility plant (connected to the Company's property), financed by the Partners. The Company agreed to transfer and convey some of its real and personal property to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs"), issued by the Partners under a state Industrial Development Bond and Commercial Development Act. The Company leased back the total facilities, including portions funded by both the Company and the Partners, under leases for a period of 40 years.

The leases related to the portion of the facilities funded by the Company have required payments from the Company to the Partners that approximate the payments required by the terms of the IDBs from the Partners to the Company (as the holder of the IDBs). As the ownership of the portion of the facilities constructed by the Company will revert back to the Company at the end of the lease, the Company has recorded these as capital leases. The lease obligation and the receivable for the principal amount of the IDBs are presented by the Company on a net basis. The gross cost of the facilities funded by the Company recognized as a capital lease asset was $158,115 and $158,565 at December 31, 2013 and 2012, respectively, which is presented within utility plant. The future payments under the lease obligations are equal to and offset by the payments receivable under the IDBs.

At December 31, 2013, the minimum annual future rental commitment under the operating leases for the portion of the facilities funded by the Partners that have initial or remaining non-cancelable lease terms in excess of one year included in the preceding minimum annual rental commitments are $3,755 in 2014 through 2018, and $77,072 thereafter.

Note 19: Segment Information

The Company has two operating segments referred to as the Regulated Businesses and Market-Based Operations segments. The Company's chief operating decision maker regularly reviews the operating results of the Regulated Businesses and Market-Based Operations segments to assess segment performance and allocate resources. The evaluation of segment performance and the allocation of resources are based on several measures. The measure that is most consistent with that used by management is income from continuing operations before income tax.

The Regulated Businesses segment includes the Company's 18 utility subsidiaries in continuing operations that provide water and wastewater services to customers in 16 U.S. states. With the exception of one company, each of these public utility subsidiaries is subject to regulation by public utility commissions and local governments. In addition to providing similar products and services and being subject to the public utility regulatory environment, each of the regulated subsidiaries has similar economic characteristics, production processes, types and classes of customers and water distribution or wastewater collection processes. Each of these companies is also subject to both federal and state regulation regarding the quality of water distributed and the discharge of wastewater residuals.

The Market-Based Operations segment is comprised of market-based businesses that provide a broad range of water and wastewater services and products including homeowner water and sewer line maintenance services, water and wastewater facility operations and maintenance services and products for cleansing water and wastewater and wastewater residuals management services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. (See Note 2) The Regulated Businesses and Market-Based Operations segment information includes intercompany costs that are allocated by American Water Works Service Company, Inc. and intercompany interest that is charged by AWCC, which are eliminated to reconcile to the consolidated results of operations. Inter-segment revenues, which are primarily recorded at cost plus mark-up that approximates current market prices, include carbon regeneration services and leased office space, furniture and equipment provided by the Company's market-based subsidiaries to its regulated subsidiaries. Other includes corporate costs that are not allocated to the Company's subsidiaries, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the Acquisitions that have not been allocated to the segments for evaluation of segment performance and allocation of resource purposes. The adjustments related to the Acquisitions are reported in Other, as they are excluded from segment performance measures evaluated by management. The following table includes the Company's summarized segment information:

	As of or for the Year Ended December 31, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,593,918	$ 325,463	$ (17,523)	$ 2,901,858
Depreciation and amortization	375,939	7,013	24,766	407,718
Total operating expenses, net	1,700,052	277,691	(21,734)	1,956,009
Income from continuing operations before income taxes	654,834	50,637	(100,001)	605,470
Total assets	13,429,087	286,048	1,354,398	15,069,533
Capital expenditures	973,301	6,951	0	980,252

	As of or for the Year Ended December 31, 2012			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,564,434	$ 330,329	$ (17,874)	$ 2,876,889
Depreciation and amortization	349,629	6,661	25,213	381,503
Total operating expenses, net	1,685,734	288,099	(21,917)	1,951,916
Income from continuing operations before income taxes	649,117	45,817	(63,676)	631,258
Total assets	12,680,856	260,255	1,777,865	14,718,976
Capital expenditures	921,500	7,074	0	928,574
Capital expenditures of discontinued operations (included in above)	2,884	0	0	2,884

	As of or for the Year Ended December 31, 2011			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,368,891	$ 327,815	$ (30,470)	$ 2,666,236
Depreciation and amortization	321,540	6,822	23,459	351,821
Total operating expenses, net	1,609,276	290,768	(36,944)	1,863,100
Income from continuing operations before income taxes	535,445	39,324	(71,089)	503,680
Total assets	12,843,820	256,110	1,676,461	14,776,391
Assets of discontinued operations (included in total assets above)	904,391	0	25,467	929,858
Capital expenditures	920,210	4,648	0	924,858
Capital expenditures of discontinued operations (included in above)	21,052	86	0	21,138

Note 20: Unaudited Quarterly Data

The following table sets forth certain supplemental unaudited consolidated quarterly financial data for each of the four quarters in the years ended December 31, 2013 and 2012, respectively. The operating results for any quarter are not indicative of results that may be expected for a full year or any future periods:

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per-share data)			
Operating revenues	$ 636,137	$ 724,265	$ 829,196	$ 712,260
Operating income	164,233	241,887	323,875	215,854
Income from continuing operations	57,643	101,263	150,665	59,693
Net income	57,643	101,263	150,665	59,693
Basic earnings per common share:				
Income from continuing operations	$ 0.32	$ 0.57	$ 0.85	$ 0.33
Net income	$ 0.32	$ 0.57	$ 0.85	$ 0.33
Diluted earnings per common share:				
Income from continuing operations	$ 0.32	$ 0.57	$ 0.84	$ 0.33
Net income	$ 0.32	$ 0.57	$ 0.84	$ 0.33

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per-share data)			
Operating revenues	$ 618,554	$ 745,607	$ 831,815	$ 680,913
Operating income	159,738	270,632	327,640	166,963
Income from continuing operations	49,252	116,663	154,111	54,224
Net income	41,754	107,026	153,812	55,478
Basic earnings per common share:				
Income from continuing operations	$ 0.28	$ 0.66	$ 0.87	$ 0.31
Net income	$ 0.24	$ 0.61	$ 0.87	$ 0.31
Diluted earnings per common share:				
Income from continuing operations	$ 0.28	$ 0.66	$ 0.87	$ 0.30
Net income	$ 0.24	$ 0.60	$ 0.86	$ 0.31

Amounts may not sum due to rounding; per share amounts may not sum due to changes in shares outstanding during the year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 (“the Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of December 31, 2013 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting, as of December 31, 2013, using the criteria described in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the framework in Internal Control—Integrated Framework issued by COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information required by this item and not given below, is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the fiscal year covered by this report, under the captions entitled "Nominees for Election as Directors," "Information Relative to the Board of Directors and Committees of the Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance ," and "Code of Ethics and Corporate Governance Guidelines."

We have adopted a Code of Ethics, which applies to directors and employees. The full text of the Code of Ethics is publicly available on our website at *http://www.amwater.com*. We intend to post on our website any amendments to certain provisions of our Code of Ethics and any waivers of such provisions granted to principal officers.

Name	Age	Office and Employment During Last Ten Years
Jeffry Sterba	58	Mr. Sterba has been our President and Chief Executive Officer since August 2010. He will cease to serve in that capacity following the Annual Meeting. He will continue to serve as an adviser to Ms. Story until January 1, 2015. Prior to joining American Water, Mr. Sterba served as Chairman and CEO of PNM Resources, Inc., the parent company of Public Service Company of New Mexico (PNM), Texas-New Mexico Power Company (TNMP) and First Choice Power, from 2000 until March 2010. Mr. Sterba previously served as Non-Executive Chairman of PNM Resources until retiring from the PNM Resources board in December 2011. After joining PNM in 1977, he held a succession of positions including Executive Vice President and Chief Operating Officer, Senior Vice President Bulk Power Services, Senior Vice President Asset Restructuring, Senior Vice President Retail Electric & Water Services and Vice President Revenue Management. From 1998 to 2000, Mr. Sterba was Executive Vice President of United States Enrichment Corporation (USEC), a global energy company headquartered in Maryland. He has served as the chair of Edison Electric Institute, the national association of shareholder owned utilities, and chair of the Electric Power Research Institute, a global non-profit center for energy and environment research. He serves on the board of directors of the Meridian Institute and previously served on the board of directors of the U.S. Chamber of Commerce.
Susan N. Story	54	Ms. Story has been our Senior Vice President and Chief Financial Officer since April 2013. Previously, she was employed for over 30 years by Southern Company, which owns and operates electric utilities in four states, and also is engaged in electric wholesale generation and telecommunications, including both wireless and wireline, fiber optic communications. Ms. Story was an executive officer of Southern Company from 2003 until she joined the Company. In addition, from January 2011 until she joined the Company, she served as the President and Chief Executive Officer of Southern Company Services, which provides shared services for all of Southern Company's subsidiaries, including information technology and cyber security efforts, human resources, procurement and supply chain management, marketing services, customer research and system transportation functions. From 2003 to December 2010, she was the President and Chief Executive Officer of Gulf Power Company, an electric utility serving the northwestern portion of Florida. Ms. Story is an independent board member of Raymond James Financial and serves on the boards of the Bipartisan Policy Center in Washington, DC and the Moffitt Cancer Center in Tampa, FL.
Walter J. Lynch	51	Mr. Lynch has served as our President and Chief Operating Officer of Regulated Operations since March 2010, and President of Regulated Operations since July 2008. Prior to that date, he served as Executive Vice President, Eastern Division. He also served as president of New Jersey American Water, Long Island American Water and our Northeast Region. Mr. Lynch joined us in 2001 and served as President of our Products and Services Group, where he was responsible for overseeing our Market-Based Operations. Prior to this, he was President of the Southwest Region of American Water Services. Mr. Lynch has more than 20 years of experience in engineering, sales and marketing, operations and business development. Before joining us, he was involved with various start-up and growth organizations in the environmental industry. Mr. Lynch worked for Mobil Oil Corporation following his departure from the United States Army where he attained the rank of Captain. In addition, Mr. Lynch is on the board of directors of the National Association of Water Companies and serves on its Executive Committee.
Kellye L. Walker	47	Ms. Walker has been our Chief Administrative Officer since September 2010, and Senior Vice President, General Counsel and Secretary since January 2010. From February 2007 to June 2009, Ms. Walker served as Senior Vice President and General Counsel of Diageo North America, Inc., the largest operating company of Diageo plc. From February 2003 to December 2006, Ms. Walker served as Senior Vice President, General Counsel and Secretary of BJ's Wholesale Club, Inc., a leading warehouse club operator. Ms. Walker also served as a partner with the law firm of Hill & Barlow in Boston, Massachusetts, and as a partner and/or associate with the law firms of Chaffe, McCall, Phillips, Toler & Sarpy in New Orleans, Louisiana, and Boult, Cummings, Connors & Berry in Nashville, Tennessee.

Name	Age	Office and Employment During Last Ten Years
Mark Chesla	54	Mr. Chesla has been our Vice President and Controller since November 2007. From 2001 to November 2007, Mr. Chesla was Vice President and Controller of Oglethorpe Power Corporation, in Atlanta, Georgia, where he served as that company's chief accounting officer. In this capacity he was responsible for all aspects of the accounting, internal financial management, regulatory and SEC reporting functions. Mr. Chesla was Vice President, Administration/Controller of SouthStar Energy Services LLC, in Atlanta, Georgia, from 1998 to 2001. Earlier, he held management positions with several other companies, including Piedmont Natural Gas Co., Inc., Aegis Technologies, Inc., Deloitte & Touche LLP and Carolina Power & Light Company.
Mark F. Strauss	62	Mr. Strauss has been our Senior Vice President of Corporate Strategy and Business Development since September 2010. From December 2006, until his new appointment in September 2010, Mr. Strauss was President of American Water Enterprises, managing our Market-Based Operations. Previously, Mr. Strauss was President and Chief Executive Officer of a line of business that we sold in 2012, Applied Water Management Group, which provided customized water and wastewater management solutions to real estate developers, industrial clients and small to midsized communities nationwide. Mr. Strauss joined Applied Water Management Group in 1997 as Corporate Counsel and Secretary. He was promoted to Chief Operating Officer in 2002, a position he held until his appointment as Division President and Chief Executive Officer in 2003. Earlier, he served as Vice President and General Counsel of Vizzoni Brothers Construction, Inc. Mr. Strauss serves as a director of Skylands Community Bank. Mr. Strauss was also an associate at the law firms of Ozzard, Rizzolo, Klein, Mauro & Savo and Toolan, Romond, Abbot and Domenichetti.
William M. Varley	56	Mr Varley has been Senior Vice President, Northeast Division and President of New Jersey American Water since January 2014. He is also President of New York American Water (formerly named Long Island American Water), a position he has held since 2007. Mr. Varley previously served as vice president and manager of Long Island American Water, as well as vice president of Business Development for New Jersey and New York. Prior to joining American Water in 2000, Mr. Varley was the district manager for Layne Christensen Co., a large water supply contracting company, for 13 years. There he oversaw Layne's Long Island well-drilling operations. He also worked for large consulting engineering firms Camp Dresser & McKee and Hazen & Sawyer as resident and design engineer for large wastewater treatment plant upgrades. Mr. Varley holds a bachelors of science in civil engineering technology from Rochester Institute of Technology.
Nick O. Rowe	56	Mr. Rowe has been the Senior Vice President of our Central Division since November 2011. From January 2009 until his new appointment in November 2011, Mr. Rowe was Senior Vice President of our Eastern Division, and from 2006 to January 2011, he was President of Kentucky American Water. From 2005 to 2006, he served as Vice President of Service Delivery Operations for the Southeast Region of American Water. From 2003 to 2005, he served as Vice President, Business Change for American Water in New Jersey, and from 1998 to 2003, Mr. Rowe was Vice President of Operations for Kentucky American Water. From 1987 to 1998, he served in various management positions with responsibility for the day-to-day operations of American Water facilities in several states including Virginia, West Virginia, and Pennsylvania. Mr. Rowe is involved with various regulatory agencies and civic and professional organizations. He is also a member of the American Water Works Association and the National Association of Water Companies.
Kathy L. Pape	61	Ms. Pape has been our Senior Vice President, Mid-Atlantic Division since November 2011, and President of Pennsylvania American Water since July 2007. From 1999 to 2007, Ms. Pape served as Senior Vice President, Treasurer and Rate Counsel for Aqua America, Inc. with responsibility for all financing activities, billing, rates and regulatory filings, budgeting and long-range planning. From 1994 to 1999, Ms. Pape was employed by us as Regional Counsel and Finance Manager, where her responsibilities included rates and regulatory affairs, finance, budgeting and customer service for 10 states. Prior to 1994, Ms. Pape was Vice President and Corporate Counsel for General Waterworks Management and Service Co., Assistant Counsel to the Pennsylvania Public Utility Commission and Assistant Consumer Advocate for the Pennsylvania Office of Consumer Advocate.

Name	Age	Office and Employment During Last Ten Years
William D. Rogers	53	Mr. Rogers has been our Vice President and Treasurer since October 2010. From 2005 to 2010, he was Chief Financial Officer for NV Energy, an investor-owned utility in Las Vegas, Nevada. From 2005 to 2007, he also served as NV Energy's Vice President of Finance, Risk and Tax and as Corporate Treasurer. Before joining NV Energy, Mr. Rogers was a managing director of capital markets for both Merrill Lynch and JPMorgan Chase in New York.
John R. Bigelow	59	Mr. Bigelow has been our Senior Vice President of Business Services since November 2011. From 2007 until his new appointment in November 2011, Mr. Bigelow was President of New Jersey American Water (NJAWC). Mr. Bigelow joined American Water in 1994 and held a number of senior management positions during his tenure, including American Water's Senior Vice President of Regulatory Programs and Enterprise Risk Management. From December 2003 to February 2006, Mr. Bigelow served as American Water's Chief Financial Officer, Vice President and Treasurer of NJAWC, and Director, Vice President and Treasurer of New Jersey American Resources Co. Mr. Bigelow began his career with GPU System Companies, where he spent 18 years in various leadership roles in the finance area.
Sharon Cameron	57	Ms. Cameron has been president of American Water Enterprises, our Market-Based Operations, since September 2010. She also serves as President of American Water Resources, Inc., a business she has been leading since 2002. Prior to joining American Water, Ms. Cameron was principal of Marketing Solutions, a marketing consulting firm she launched in 1998, and was a consultant to American Water on the Homeowner Services business. Previously, Ms. Cameron served as vice president of Marketing and Sales at Comcast Corporation (New Jersey), senior marketing manager at Menley & James Laboratories, and marketing manager at Campbell Soup Company.
Mark S. Smith	54	Mr. Smith has been our Vice President and Chief Information Officer since September 2012. From 2008 to 2012, Mr. Smith served as our ITS Senior Director, Business Application Development & Project Management Office. Prior to joining American Water, Mr. Smith, held several roles with Siemens and Shared Medical Systems (pre-acquisition) over a course of 23 years, including Group Manager of Management Information Systems and Director of the Shared Services Office where he was responsible for enterprise and system level architecture definition, administration and implementation for internal development as well as custom commercial applications.
Maureen Duffy	44	Ms. Duffy has been our Vice President of Corporate Communications and External Affairs since September 2011. From June 2011 to September 2011, Ms. Duffy served as the Executive Director of Corporate Communications and External Affairs. From September 2008 to June 2011, Ms. Duffy served as Director of External Communications, and from July 2006 until September 2008, she served as Director of Internal Communications. From November 1999 to July 2006, she held various positions with New Jersey American Water, which included Government Affairs/Media Specialist, Communications Manager and Director of Corporate Communications. Prior to joining American Water, Ms. Duffy reported and produced news for WNJN/WNET-TV.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, under the captions entitled "Executive Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Director Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item setting forth the security ownership of certain beneficial owners and management is incorporated by reference in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders, under the caption entitled "Security Ownership of Principal Stockholders and Management" and the "Equity Compensation Plan" table appearing un der the caption "Long-Term Equity Incentive Compensation."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference in the Company’s Proxy Statement for the 2014 Annual Meeting of Stockholders, under the captions entitled “Certain Relationships and Related Transactions” and “Director Independence.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference in the Company’s Proxy Statement for the 2014 Annual Meeting of Stockholders, under the caption entitled “Independent Registered Public Accounting Fees and Services.”

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted since they are either not required or are not applicable as the information is otherwise included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26 day of February, 2014.

AMERICAN WATER WORKS COMPANY, INC.

BY: /s/ JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed on the 26th day of February, 2014 by the following persons in the capacities indicated.

/s/JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer and Director)

/s/ RICHARD R. GRIGG
Richard R. Grigg
(Director)

/s/ SUSAN N. STORY
Susan N. Story
Senior Vice President and Chief Financial Officer

/s/ JULIA L. JOHNSON
Julia L. Johnson
(Director)

/s/ MARK CHESLA
Mark Chesla
Vice President, Controller

/s/ WILLIAM J. MARRAZZO
William J. Marrazzo
(Director)

/s/ GEORGE MACKENZIE
George MacKenzie
(Director)

/s/ STEPHEN P. ADIK
Stephen P. Adik
(Director)

/s/ MARTHA CLARK GOSS
Martha Clark Goss
(Director)

/s/ PAUL J. EVANSON
Paul J. Evanson
(Director)

/s/ JULIE A. DOBSON
Julie A. Dobson
(Director)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008.)
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed January 5, 2010).
4.1	Indenture, dated as of October 22, 2007 between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to American Water Capital Corp.'s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc.'s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).
10.1	Credit Agreement, dated October 29, 2012, between American Water Capital Corp., each of the initial lenders named therein as Lenders, Wells Fargo Bank, N.A. as administrative agent and JP Morgan Chase Bank, N.A., as syndication agent. (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed on May 7, 2013).
10.2	Support Agreement, dated June 22, 2000, together with First Amendment to Support Agreement, dated July 26, 2000, by and between American Water Works Company, Inc. and American Water Capital Corp. (incorporated by reference to Exhibit 10.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.3.1	Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 25, 2013 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.3.2	First Amendment to the Agreement and General Release between Ellen C. Wolf and American Water Works Company, Inc., dated March 27, 2013 (incorporated by reference to Exhibit 10.2A to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.4.1	Employment Agreement between Jeffry E. Sterba and American Water Works Company, Inc., dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed March 30, 2012).
10.4.2	Letter Agreement, dated December 12, 2013, between the Company and Jeffry E. Sterba, amending Mr. Sterba's Employment Letter Agreement dated March 26, 2012 (incorporated by reference to Exhibit 99.1 to American Water Works Company, Inc.'s Form 8-K, File No. 001-34028, filed December 13, 2013).
10.5	Employment Agreement between Susan Story and American Water Works Company, Inc., dated February 20, 2013 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.6	Employment Agreement between Kellye L. Walker and American Water Works Company, Inc., dated December 21, 2009 (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.7	Amended and Restated American Water Works Company, Inc. Executive Retirement Plan, dated as of March 1, 2007 (incorporated by reference to Exhibit 10.8 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).

Exhibit Number	Exhibit Description
10.8	Amended and Restated American Water Works Company, Inc. Deferred Compensation Plan, dated as of January 1, 2001 (incorporated by reference to Exhibit 10.9 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.9.1	American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.15 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.9.2	Amendment 2010-1 to the American Water Works Company, Inc. Nonqualified Employee Stock Purchase Plan, dated as of December 10, 2010 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.'s Form 10-K, File No. 001-34028, filed February 28, 2011).
10.10	American Water Works Company, Inc. Executive Severance Policy, dated as of December 16, 2008 (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed November 3, 2010).
10.11.1	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (incorporated by reference to Exhibit 10.22 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 31, 2008).
10.11.2	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Nonqualified Stock Option Grant for ML1 – L5 Employees (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.11.3	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form A for ML1 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.11.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Performance Stock Unit Grant Form B for ML1 – L5 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.11.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Nonqualified Stock Option Grant for ML1 – L5 Employees (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.11.6	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form A for ML1 – L5 (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.11.7	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Performance Stock Unit Grant Form B for ML1 – L5 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.11.8	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Initial Restricted Stock Unit Grant Form for Susan N. Story (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.9	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.6 to American Water Works Company, Inc.'s Form 10-Q, File No. 001-34028, filed May 7, 2013).

Exhibit Number	Exhibit Description
10.11.10	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for Jeffry E. Sterba (incorporated by reference to Exhibit 10.7 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.11	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for Jeffry E. Sterba (incorporated by reference to Exhibit 10.8 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.12	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for Jeffry E. Sterba (incorporated by reference to Exhibit 10.9 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.13	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Restricted Stock Unit Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.10 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.14	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form A for ML2 – L5 (incorporated by reference to Exhibit 10.11 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.15	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Performance Stock Unit Grant Form B for ML2 – L5 (incorporated by reference to Exhibit 10.12 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.16	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Nonqualified Stock Option Grant Form for ML2 – L5 (incorporated by reference to Exhibit 10.13 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.11.17	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2011 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed August 3, 2011).
10.11.18	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2012 Form of Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed August 2, 2012).
10.11.19	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2013 Stock Unit Grant Form for Non-Employee Directors (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.’s Quarterly Report on Form 10-Q, File No. 001-34028, filed August 7, 2013).
10.12	2011 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 4, 2011).
10.13	2012 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 2, 2012).
10.14	2013 American Water Annual Incentive Plan Highlights Brochure (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.’s Form 10-Q, File No. 001-34028, filed May 7, 2013).
10.15	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries, as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.37 to American Water Works Company, Inc.’s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
10.16	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.38 to American Water Works Company, Inc.’s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).

Exhibit Number	Exhibit Description
*21.1	Subsidiaries of American Water Works Company, Inc.
*23.1	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Jeffry E. Sterba, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*32.1	Certification of Jeffry E. Sterba, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*32.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*101	The following financial statements from American Water Works Company, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

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* filed herewith

Instruments defining the rights of holders of certain issues of long-term debt of the Company and certain of its consolidated subsidiaries have not been filed as exhibits to this report because the authorized principal amount of any one of such issues does not exceed 10% of the consolidated total assets of the Company's consolidated total assets. The Company agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

Exhibit 21.1

American Water Works Company, Inc.’s Subsidiaries

As of February 21, 2014

Entity Name	Entity Type	Domestic Jurisdiction
AAET, INC.	Corporation	Delaware
American Lake Water Company	Corporation	Illinois
American Water – Acciona Agua LLC	Limited Liability Company	Delaware
American Water (USA), Inc.	Corporation	Delaware
American Water Canada Corp.	Corporation	Ontario
American Water Capital Corp.	Corporation	Delaware
American Water Carbon Services Corp.	Corporation	Ontario
American Water Engineering, Inc.	Corporation	New Jersey
American Water Enterprises Holding, Inc.	Corporation	Delaware
American Water Enterprises, Inc.	Corporation	Delaware
American Water Industrials, Inc.	Corporation	Delaware
American Water Operations and Maintenance, Inc.	Corporation	Texas
American Water Resources Holdings, Inc.	Corporation	Delaware
American Water Resources of Florida, Inc.	Corporation	Delaware
American Water Resources of Texas, Inc.	Corporation	Delaware
American Water Resources, Inc.	Corporation	Virginia
American Water Services CDM, Inc.	Corporation	Washington
American Water Services Underground Infrastructure Corp.	Corporation	Ontario
American Water Services, LLC	Limited Liability Company	Delaware
American Water Works Company, Inc.	Corporation	Delaware
American Water Works Service Company, Inc.	Corporation	Delaware
AW Contract Services (Canada), Inc.	Corporation	Federally Chartered
AW Contract Services (USA), Inc.	Corporation	Delaware
AW Contract Services Holding, Inc.	Corporation	Delaware
AW Technologies Incorporated	Corporation	Delaware
Bluefield Valley Water Works Company	Corporation	Virginia
Braemar Acres Limited	Corporation	Ontario
California-American Water Company	Corporation	California
Dale Service Corporation	Corporation	Virginia
Edison Water Company	Corporation	New Jersey
EMC American Water Canada, Inc.	Corporation	Federally Chartered
EMC Batesille, LLC	Limited Liability Company	Missouri
EMC of St. Charles County, LLC	Limited Liability Company	Missouri
Environmental Management Corporation	Corporation	Missouri
E’Town Properties, Inc.	Corporation	Delaware
E’Town Services, LLC	Limited Liability Company	New Jersey
Hawaii-American Water Company	Corporation	Nevada
Illinois-American Water Company	Corporation	Illinois
Indiana-American Water Company, Inc.	Corporation	Indiana
Iowa-American Water Company	Corporation	Delaware
Kentucky-American Water Company	Corporation	Kentucky
Laurel Oak Properties Corporation	Corporation	Delaware
Liberty Water Company	Corporation	New Jersey
Maryland-American Water Company	Corporation	Maryland
Michigan-American Water Company	Corporation	Michigan
Missouri-American Water Company	Corporation	Missouri
Mobile Residuals Management (USA), Inc.	Corporation	Delaware
Mobile Residuals Management, Inc.	Corporation	Ontario
New Jersey-American Water Company, Inc.	Corporation	New Jersey
New York American Water Company, Inc.	Corporation	New York
OMI/Thames Water Stockton, Inc.	Corporation	Delaware
Pennsylvania-American Water Company	Corporation	Pennsylvania
Philip Automated Management Controls, Inc.	Corporation	Georgia
Prism-Berlie (Windsor) Limited	Corporation	Ontario
Rialto Water Services, LP	Limited Partnership	Delaware

Entity Name	Entity Type	Domestic Jurisdiction
Tennessee-American Water Company	Corporation	Tennessee
Terratec Environmental LTD.	Corporation	Ontario
Texas-American Water Company	Corporation	Texas
TWH LLC	Limited Liability Company	Delaware
TWNA, Inc.	Corporation	Delaware
Virginia-American Water Company	Corporation	Virginia
West Virginia-American Water Company	Corporation	West Virginia

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-168543 and 333-150381) and Form S-3 (Nos. 333-187120 and 333-181155) of American Water Works Company, Inc. of our report dated February 26, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2014

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffry Sterba, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

> a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2014

By: /s/ JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER

I, Susan N. Story, certify that:

1. I have reviewed this annual report on Form 10-K of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

> a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2014

By: /s/ SUSAN N. STORY
Susan N. Story
Senior Vice President and Chief Financial Officer

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND
18 U.S.C. SECTION 1350,

I, Jeffry Sterba, President and Chief Executive Officer of American Water Works Company, Inc. (the "Company"), hereby certify that, based on my knowledge:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer)

February 26, 2014

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT AND 18 U.S.C. SECTION 1350,

I, Susan N. Story, Senior Vice President and Chief Financial Officer, of American Water Works Company, Inc. (the "Company"), hereby certify that, based on my knowledge:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
Senior Vice President and Chief Financial Officer

February 26, 2014

AWK 10-Q 3/31/2015

Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _________to __________

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

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

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AMERICAN WATER WORKS COMPANY, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2015
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

	For the Three Months Ended March 31,	
	2015	**2014**
Operating revenues	$ 698,078	$ 679,003
Operating expenses		
Operation and maintenance	323,832	325,180
Depreciation and amortization	107,377	105,924
General taxes	63,696	60,667
Gain on asset dispositions and purchases	(1,128)	(210)
Total operating expenses, net	493,777	491,561
Operating income	204,301	187,442
Other income (expenses)		
Interest, net	(75,673)	(73,560)
Allowance for other funds used during construction	2,360	2,201
Allowance for borrowed funds used during construction	2,522	1,483
Amortization of debt expense	(1,764)	(1,673)
Other, net	1,756	(1,541)
Total other income (expenses)	(70,799)	(73,090)
Income from continuing operations before income taxes	133,502	114,352
Provision for income taxes	53,459	45,239
Income from continuing operations	80,043	69,113
Loss from discontinued operations, net of tax	—	(990)
Net income	$ 80,043	$ 68,123
Other comprehensive income (loss), net of tax:		
Pension amortized to periodic benefit cost:		
Prior service cost, net of tax of $25 and $27, respectively	$ 39	$ 41
Actuarial (gain) loss, net of tax of $832 and $(5), respectively	1,302	(7)
Foreign currency translation adjustment	(996)	(550)
Unrealized loss on cash flow hedge, net of tax of $10	20	—
Other comprehensive income (loss)	365	(516)
Comprehensive income	$ 80,408	$ 67,607
Basic earnings per share:		
Income from continuing operations	$ 0.45	$ 0.39
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)
Net income	$ 0.45	$ 0.38
Diluted earnings per share:		
Income from continuing operations	$ 0.44	$ 0.39
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)
Net income	$ 0.44	$ 0.38
Average common shares outstanding during the period		
Basic	179,458	178,539
Diluted	180,295	179,457
Dividends declared per common share	$ —	$ —

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2015	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 80,043	$ 68,123
Adjustments		
Depreciation and amortization	107,377	106,078
Provision for deferred income taxes	34,368	44,919
Amortization of deferred investment tax credits	(338)	(349)
Provision for losses on accounts receivable	7,578	7,580
Allowance for other funds used during construction	(2,360)	(2,201)
Gain on asset dispositions and purchases	(1,128)	(270)
Pension and non-pension postretirement benefits	15,324	6,018
Stock-based compensation expense	2,418	2,711
Other, net	(13,844)	9,624
Changes in assets and liabilities		
Receivables and unbilled revenues	(8,758)	3,307
Taxes receivable, including income taxes	(5,439)	(4,322)
Other current assets	(3,171)	(9,654)
Pension and non-pension postretirement benefit contributions	(12,732)	(10,714)
Accounts payable	(30,052)	(59,140)
Taxes accrued, including income taxes	31,209	21,729
Interest accrued	38,411	41,568
Change in book overdraft	(19,368)	22,089
Other current liabilities	(20,919)	(2,222)
Net cash provided by operating activities	198,619	244,874
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(226,411)	(192,466)
Acquisitions	(48)	(2,279)
Proceeds from sale of assets	1,214	243
Removal costs from property, plant and equipment retirements, net	(14,265)	(10,460)
Net funds released	(7,006)	(238)
Net cash used in investing activities	(246,516)	(205,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(3,091)	(2,192)
Proceeds from short-term borrowings with maturities greater than three months	—	35,000
Repayment of short-term borrowings with maturities greater than three months	—	(221,000)
Net short-term borrowings with maturities less than three months	94,572	193,920
Proceeds from issuances of employee stock plans and DRIP	6,191	8,199
Advances and contributions for construction, net of refunds of $4,146 and $5,277 at March 31, 2015 and 2014, respectively	5,346	1,358
Redemption of preferred stock	(1,200)	(1,200)
Dividends paid	(55,615)	(49,968)
Tax benefit realized from equity compensation	2,908	—
Net cash provided by (used in) financing activities	49,111	(35,883)
Net increase in cash and cash equivalents	1,214	3,791
Cash and cash equivalents at beginning of period	23,080	26,964
Cash and cash equivalents at end of period	$ 24,294	$ 30,755
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	$ 133,799	$ 109,464
Non-cash financing activity:		
Advances and contributions	$ 3,006	$ 3,526

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(In thousands)

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

	Common Stock				Accumulated Other	Treasury Stock		Total
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Shares	At Cost	Stockholders' Equity
Balance at December 31, 2013	178,379	$ 1,784	$ 6,261,396	$ (1,495,698)	$ (34,635)	(132)	$ (5,043)	$ 4,727,804
Net income	—	—	—	68,123	—	—	—	68,123
Direct stock reinvestment and purchase plan, net of expense of $8	10	—	430	—	—	—	—	430
Employee stock purchase plan	25	—	1,076	—	—	—	—	1,076
Stock-based compensation activity	562	6	9,375	(175)	—	(118)	(4,977)	4,229
Other comprehensive loss, net of tax of $22	—	—	—	—	(516)	—	—	(516)
Dividends	—	—	—	(59)	—	—	—	(59)
Balance at March 31, 2014	178,976	$ 1,790	$ 6,272,277	$ (1,427,809)	$ (35,151)	(250)	$ (10,020)	$ 4,801,087

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

Note 1: Basis of Presentation

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

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

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

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

Note 2: New Accounting Pronouncements

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

Service Concession Arrangements

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

Reporting Discontinued Operations

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

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

Revenue from Contracts with Customers

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

Accounting for Stock-based Compensation with Performance Targets

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

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

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

Hybrid Financial Instruments Issued in the Form of a Share

In November 2014, the FASB updated the derivatives and hedging guidance requiring issuers of, or investors in, hybrid financial instruments to determine whether the nature of the host contract is more akin to a debt instrument or an equity instrument by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This update should be applied on a modified retrospective basis to hybrid financial instruments issued in the form of a share that exist at the beginning of an entity’s fiscal year of adoption. The updated guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which for the Company is January 1, 2016. Early adoption is permitted. The Company is evaluating the impact the updated guidance will have on its results of operations, financial position or cash flows.

Extraordinary and Unusual Items

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

Amendments to the Consolidation Analysis

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

Presentation of Debt Issuance Costs

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

Accounting for Fees Paid in a Cloud Computing Arrangement

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

Note 3: Divestitures

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

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

Note 4: Stockholders' Equity

Accumulated Other Comprehensive Loss

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

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

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

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

Stock Options

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

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

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

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

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

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

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

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

Restricted Stock Units

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

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

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

Expected volatility	14.90%
Risk-free interest rate	1.10%
Expected life (years)	3
Grant date fair value per share	$ 55.28

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

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

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

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

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

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

Note 5: Long-Term Debt

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

Company	Type	Rate	Maturity	Amount
American Water Capital Corp. ("AWCC") (a)	Private activity bonds and government funded debt—fixed rate	1.79%-2.90%	2021-2031	$ 807
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.30%	2015-2033	2,277
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments	12.17%	2026	7
Total retirements and redemptions				$ 4,291

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

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

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

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

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

Note 6: Short-Term Debt

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

Note 7: Income Taxes

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

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

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

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

Note 8: Pension and Other Postretirement Benefits

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

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

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

Note 9: Commitments and Contingencies

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

Note 10: Environmental Matters

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

Note 11: Earnings per Common Share

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

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

	Three Months Ended March 31,	
Basic	2015	2014
Income from continuing operations	$ 80,043	$ 69,113
Loss from discontinued operations, net of tax	—	(990)
Net income	80,043	68,123
Less: Distributed earnings to common shareholders	55,647	50,128
Less: Distributed earnings to participating securities	13	15
Undistributed earnings	24,383	17,980
Undistributed earnings allocated to common shareholders	24,378	17,975
Undistributed earnings allocated to participating securities	5	5
Total income from continuing operations available to common shareholders, basic	$ 80,025	$ 69,093
Total income available to common shareholders, basic	$ 80,025	$ 68,103
Weighted-average common shares outstanding, basic	179,458	178,539
Basic earnings per share: (a)		
Income from continuing operations	$ 0.45	$ 0.39
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)
Net income	$ 0.45	$ 0.38

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

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

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

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

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

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

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

Note 12: Fair Value of Financial Assets and Liabilities

Fair Value of Financial Instruments

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

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company’s debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company’s own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

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

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

	Carrying Amount	At Fair Value as of December 31, 2014			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 17,151	$ —	$ —	$ 22,167	$ 22,167
Long-term debt (excluding capital lease obligations)	5,491,341	2,874,622	1,474,708	2,055,058	6,404,388

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of March 31, 2015 and December 31, 2014, respectively:

	At Fair Value as of March 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Restricted funds	$ 50,193	$ —	$ —	$ 50,193
Rabbi trust investments	—	12,217	—	12,217
Deposits	4,120	—	—	4,120
Mark-to-market derivative asset	—	3,874	—	3,874
Total assets	54,313	16,091	—	70,404
Liabilities				
Deferred compensation obligation	—	11,713	—	11,713
Mark-to-market derivative liability	—	995	—	995
Total liabilities	—	12,708	—	12,708
Total net assets (liabilities)	$ 54,313	$ 3,383	$ —	$ 57,696

	At Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Restricted funds	$ 45,182	$ —	$ —	$ 45,182
Rabbi trust investments	—	11,751	—	11,751
Deposits	4,158	—	—	4,158
Mark-to-market derivative asset	—	3,636	—	3,636
Total assets	49,340	15,387	—	64,727
Liabilities				
Deferred compensation obligation	—	11,765	—	11,765
Mark-to-market derivative liability	—	1,012	—	1,012
Total liabilities	—	12,777	—	12,777
Total net assets (liabilities)	$ 49,340	$ 2,610	$ —	$ 51,950

Restricted funds—The Company’s restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Also included in restricted funds above is $20,370 and $22,366 of money market funds held in trust for active employee benefits, at March 31, 2015 and December 31, 2014, respectively, which the Company includes in other current assets in the accompanying Consolidated Balance Sheets.

Rabbi trust investments—The Company’s rabbi trust investments consist primarily of fixed income investments and mutual funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company’s deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company’s deferred compensation obligations is based on the market value of the participants’ notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Note 13: Segment Information

The Company has two operating segments that are also the Company's two reportable segments, referred to as Regulated Businesses and Market-Based Operations. The following table includes the Company's summarized segment information:

	As of or for the Three Months Ended March 31, 2015			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 615,410	$ 87,473	$ (4,805)	$ 698,078
Depreciation and amortization	99,968	1,064	6,345	107,377
Total operating expenses, net	424,411	76,032	(6,666)	493,777
Income from continuing operations before income taxes	134,142	12,057	(12,697)	133,502

	As of or for the Three Months Ended March 31, 2014			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 607,644	$ 75,855	$ (4,496)	$ 679,003
Depreciation and amortization	98,783	1,450	5,691	105,924
Total operating expenses, net	431,957	64,523	(4,919)	491,561
Income from continuing operations before income taxes	115,028	11,977	(12,653)	114,352

Note 14: Subsequent Event

On April 9, 2015, the California Public Utility Commission approved the settlement of California-American Water Company's general rate case with rates retroactive to January 1, 2015. Additionally, the settlement allowed recovery of prior expenditures incurred related to the business transformation project and authorized a sharing mechanism for prior contamination proceeds that were previously deferred. As a result of the finalization of this case pre-tax earnings were increased by $9,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future" and "intends" and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the "Risk Factors" section or other sections in the Company's annual report on Form 10-K ("Form 10-K") for the year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC"). We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment. For further description of our businesses see Item 1, "Business," in our Form 10-K for the year ended December 31, 2014.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K for the year ended December 31, 2014.

Overview

Financial Results

Highlights of our operating results for the three months ended March 31, 2015 compared to same period during 2014 include:

	Three Months Ended March 31, 2015	2014
Income from continuing operations	$ 0.44	$ 0.39
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)
Diluted earnings per share	$ 0.44	$ 0.38

Continuing Operations

Income from continuing operations increased 5 cents per diluted share for the quarter. Contributing to this increase were costs of 2 cents per diluted share last year resulting from the Freedom Industries chemical spill in West Virginia. The remainder of the increase is mainly from favorable operating results for our Regulated Businesses segment due to higher revenues, lower operating expenses and the finalization of our California general rate case.

Discontinued operations

In the fourth quarter of 2014, we sold our Terratec line of business, which was part of our Market-Based Operations segment. The after-tax loss from discontinued operations includes the operating results of the entity prior to the sale for the three months ended March 31, 2014.

Regulatory Matters

The table below provides details of annualized revenues awarded assuming a constant volume, resulting from rate authorizations that were effective in the first quarter of 2015:

State	**For the Three Months Ended March 31, 2015** **(In millions)**
General Rate Cases:	
Indiana (1)	$ 5.1
California (2)	5.2
Total General Rate cases	$ 10.3
Infrastructure charges:	
New Jersey (3)	$ 9.4
Illinois (4)	6.4
Total Infrastructure charges	$ 15.8

(1) Rates became effective January 29, 2015.
(2) Rates retroactive to January 1, 2015.
(3) Rates became effective January 1, 2015.
(4) Rates of $5.4 million and $1.0 million became effective January 1, 2015 and February 1, 2015, respectively.

On April 9, 2015, our California settlement was approved by the California Public Utility Commission. Rates were retroactive to January 1, 2015. The settlement also allowed recovery of prior expenditures incurred related to our business transformation project and authorized a sharing mechanism for prior contamination proceeds that were previously deferred, which has also been reflected in 2015 first quarter results.

On January 9, 2015, our New Jersey subsidiary filed a general rate case requesting additional annualized revenue of approximately $66.2 million. Also in the first in the first quarter of 2015, we filed for additional annualized revenues from infrastructure charges for our Missouri and New York subsidiaries of $1.9 million and $0.1 million, respectively.

Following the close of the quarter, additional annualized revenue of $1.6 million resulting from infrastructure charges in our Pennsylvania subsidiary became effective on April 1, 2015 and on April 30, 2015 our West Virginia subsidiary requested additional annual water and wastewater revenue of approximately $35.6 million as part of a general rate case filing.

As of May 6, 2015, we are awaiting final orders in four states, including New Jersey and West Virginia, requesting additional annualized revenue of $102.4 million and $4.4 million in additional annualized revenues for infrastructure charges in three states. There is no assurance that all or any portion of these requests will be granted.

Focusing on Central Themes

For 2015, our focus is anchored on five central themes: 1) Customers, 2) Safety, 3) People, 4) Growth and 5) Operational Efficiency. We will continue our focus on operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces value for our shareholders. Additionally, we will continue our ongoing strategy that ensures a safe workplace for our employees, emphasizes public safety for our customers, and that leverages our people resources, processes and technology innovation to make ourselves more effective and efficient. The progress that we have made in the first three months of 2015 with respect to growth and continuing to improve our operational efficiency ratio is described below.

Growth - Infrastructure improvements, acquisitions and strategic investments

During the first three months of 2015, we made capital investments of approximately $167.3 million to improve infrastructure in our Regulated Businesses. For the full-year of 2015, our total capital plan is $1.2 billion, most of which will be allocated to improving infrastructure in our Regulated Businesses with an additional $0.1 billion allocated for acquisitions and strategic investments.

On April 30, 2015, we announced that we had signed an agreement to acquire Environmental Disposal Corporation (“EDC”), which provides wastewater services to more than 5,300 customer accounts located in New Jersey. The acquisition is pending approval by the New Jersey Board of Public Utilities.

Technology and Operational Efficiency - Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our operation and maintenance (“O&M”) efficiency ratio. Our O&M efficiency ratio for the twelve months ended March 31, 2015 was 36.3%, compared to 38.0% for the twelve months ended March 31, 2014. The improvement in the 2015 O&M efficiency ratio over this period was principally attributable to an increase in Regulated Businesses’ revenue and a decrease in the O&M expenses.

Our O&M efficiency ratio (a non-GAAP measure) is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also excluded from operating revenues and O&M expenses the estimated impact from changes in consumption as a result of weather and the West Virginia Freedom Industries chemical spill. Additionally, from the O&M expenses, we exclude the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the Statement of Operations.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses’ operations. This information is intended to enhance an investor’s overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies’ operating measures and should not be used in place of the GAAP information provided elsewhere in this report. The following table provides a reconciliation that compares O&M and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our O&M efficiency ratio for the twelve months ended March 31, 2015 as compared to the same period in 2014.

Regulated O&M Efficiency Ratio (a Non-GAAP Measure):

	For the Twelve Months Ended March 31,	
	2015	2014
	(In thousands)	
Total Operation and Maintenance Expense	$ 1,348,516	$ 1,306,962
Less:		
Operation and maintenance expense—Market-Based Operations	301,183	248,032
Operation and maintenance expense—Other	(52,677)	(55,399)
Total Regulated Operation and Maintenance Expense	1,100,010	1,114,329
Less:		
Regulated purchased water expense	120,590	114,217
Allocation of non-operation and maintenance expense	39,855	35,073
Impact of West Virginia Freedom Industries chemical spill	5,797	4,861
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)
Adjusted Regulated Operation and Maintenance Expense (a)	$ 935,530	$ 961,865
Total Operating Revenues	$ 3,030,403	$ 2,926,000
Less:		
Operating revenues—Market-Based Operations	366,296	315,259
Operating revenues—Other	(17,988)	(17,583)
Total Regulated Operating Revenues	2,682,095	2,628,324
Less:		
Regulated purchased water expense*	120,590	114,217
Plus:		
Impact of West Virginia Freedom Industries chemical spill	—	1,012
Estimated impact of weather (mid-point of range)	16,785	15,625
Adjusted Regulated Operating Revenues (b)	$ 2,578,290	$ 2,530,744
Adjusted Regulated Operation and Maintenance Efficiency Ratio (a)/(b)	36.3%	38.0%

* Calculation assumes purchased water revenues approximate purchased water expenses.

Consolidated Results of Operations and Changes from Prior Periods

	For the Three Months Ended March 31,		
	2015	2014	Favorable (Unfavorable) Change
	(In thousands, except per share amounts)		
Operating revenues	$ 698,078	$ 679,003	$ 19,075
Operating expenses			
Operation and maintenance	323,832	325,180	1,348
Depreciation and amortization	107,377	105,924	(1,453)
General taxes	63,696	60,667	(3,029)
Gain on asset dispositions and purchases	(1,128)	(210)	918
Total operating expenses, net	493,777	491,561	(2,216)
Operating income	204,301	187,442	16,859
Other income (expenses)			
Interest, net	(75,673)	(73,560)	(2,113)
Allowance for other funds used during construction	2,360	2,201	159
Allowance for borrowed funds used during construction	2,522	1,483	1,039
Amortization of debt expense	(1,764)	(1,673)	(91)
Other, net	1,756	(1,541)	3,297
Total other income (expenses)	(70,799)	(73,090)	2,291
Income from continuing operations before income taxes	133,502	114,352	19,150
Provision for income taxes	53,459	45,239	(8,220)
Income from continuing operations	80,043	69,113	10,930
Loss from discontinued operations, net of tax	—	(990)	990
Net income	$ 80,043	$ 68,123	$ 11,920
Basic earnings per share:			
Income from continuing operations	$ 0.45	$ 0.39	
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)	
Net income	$ 0.45	$ 0.38	
Diluted earnings per share:			
Income from continuing operations	$ 0.44	$ 0.39	
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)	
Net income	$ 0.44	$ 0.38	
Average common shares outstanding during the period:			
Basic	179,458	178,539	
Diluted	180,295	179,457	

The following is a discussion of the consolidated results of operations for the three months ended March 31, 2015 compared to the three ended March 31, 2014:

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Operating revenues. Consolidated operating revenues for the quarter ended March 31, 2015 increased $19.1 million, or 2.8%, compared to the same quarter last year. Revenues in our Market-Based Operations segment rose $11.6 million, largely driven by incremental revenue from our military contracts due to increased construction type projects and the addition of two military bases in the second half of 2014 coupled with contract growth in our Homeowner Services Group (“HOS”). Revenues in our Regulated Businesses segment rose $7.8 million mainly attributable to rate increases, partially offset by reduced consumption in 2015. For further information, see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated O&M decreased by $1.3 million, or 0.4%, compared to the same period in 2014. O&M in our Regulated Businesses segment decreased $11.5 million primarily due to lower production costs of $5.5 million driven by lower supplier prices related to fuel and power costs, 2014 costs associated with Freedom Industries chemical spill of $4.6 million and authorized recovery of $3.1 million in costs as a result of the finalization of our California general rate case. These decreases were partially offset by higher O&M costs in our Market-Based Operations segment of $11.8 million, principally due to increased activity under our military contracts, corresponding with the increased revenue. For further discussions on the changes in our Regulated Businesses and Market-Based Operations segments' O&M, see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $1.5 million, or 1.4%, primarily as a result of additional utility plant placed in service.

General Taxes. General taxes increased $3.0 million, or 5.0%, primarily due to a true-up of business and opportunity taxes and higher property tax assessments for various subsidiaries in our Regulated Businesses segment.

Other income (expenses). Other expenses decreased by $2.3 million, or 3.1%, compared to the same period in 2014. The decrease is primarily due to authorization through the California rate case of a sharing mechanism between shareholders and customers for proceeds from a $4.1 million chemical settlement and the recovery of the allowance for borrowed funds used during construction on the authorized business transformation costs.

Provision for income taxes. Our consolidated provision for income taxes increased $8.2 million, or 18.2%, to $53.5 million for the three months ended March 31, 2015, due to the increase in pre-tax income. The effective tax rates for the three months ended March 31, 2015 and 2014 were 40.0% and 39.6%, respectively.

Loss from discontinued operations, net of tax. As previously noted, the financial results of our Terratec line of business previously reported in our Market-Based Operations segment were classified as discontinued operations for all periods presented. The disposition of Terratec was finalized in the fourth quarter of 2014. For the three months ended March 31, 2014, the loss from discontinued operations, net of tax, represents the operating results of Terratec for the period.

Segment Results

We have two reportable segments: the Regulated Businesses and the Market-Based Operations Segments. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses Segment for the periods indicated:

	For the Three Months Ended March 31,		
	2015	2014	Increase (Decrease)
	(In thousands)		
Operating revenues	$ 615,410	$ 607,644	$ 7,766
Operation and maintenance expense	266,330	277,827	(11,497)
Operating expenses, net	424,411	431,957	(7,546)
Income from continuing operations before income taxes	134,142	115,028	19,114

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business generally is subject to state economic regulation and our results of operations are impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate.

Comparison of Results of Operations for the Three Months Ended March 31, 2015 and 2014

Operating revenues increased by $7.8 million, or 1.3%, for the quarter primarily due to incremental revenues of approximately $9.0 million resulting from rate increases and infrastructure surcharges for a number of our operating companies. Partially offsetting this increase was a decrease in revenues of approximately $3.3 million as a result of lower demand compared to the same period in last year.

The following table sets forth information regarding the Regulated Businesses' revenues and billed water sales volume by customer class for the periods indicated:

	For the Three Months Ended March 31,							
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$ 347,141	$ 353,524	$ (6,383)	(1.8%)	37,654	39,937	(2,283)	(5.7%)
Commercial	122,598	129,819	(7,221)	(5.6%)	17,290	18,989	(1,699)	(8.9%)
Industrial	30,969	33,569	(2,600)	(7.7%)	8,997	9,815	(818)	(8.3%)
Public and other	76,129	83,966	(7,837)	(9.3%)	11,837	13,409	(1,572)	(11.7%)
Other water revenues	7,480	777	6,703	862.7%	—	—	—	—
Billed water services	584,317	601,655	(17,338)	(2.9%)	75,778	82,150	(6,372)	(7.8%)
Unbilled water services	(3,806)	(26,207)	22,401	(85.5%)				
Total water service revenues	580,511	575,448	5,063	0.9%				
Wastewater service revenues	22,818	22,408	410	1.8%				
Other revenues	12,081	9,788	2,293	23.4%				
	$ 615,410	$ 607,644	$ 7,766	1.3%				

Water Services – Water service operating revenues for the three months ended March 31, 2015 totaled $580.5 million, a $5.1 million increase, or 0.9%, over the same period of 2014. As described above, the increase is primarily due to rate increases and infrastructure surcharges. Also, the mix between billed and unbilled water revenue for the three-month period ended March 31, 2015, compared to the same periods in 2014 has changed. This change is principally the result of addressing the majority of delayed billings that existed at December 31, 2013, by billing those customers in the first quarter of 2014. The delayed billings resulted from the implementation of our Customer Information System ("CIS") in 2013. Additionally, included in the first quarter 2014 was a credit of $1.0 million issued to the customers of West Virginia in connection with the Freedom Industries chemical spill.

Wastewater services – Our subsidiaries provide wastewater services in eleven states. Revenues from these services increased $0.4 million, or 1.8%, for the three months ended March 31, 2015 compared to the same period in 2014.

Other revenues – Other revenues, which include such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $2.3 million, or 23.4%, for the three months ended March 31, 2015. The increase is principally due to incremental revenues for late payment fees and reconnection fees.

Operation and maintenance expense. Operation and maintenance expense decreased $11.5 million, or 4.1%, the three months ended March 31, 2015 compared to the same period in 2014.

The following table provides information regarding operation and maintenance expense for the three months ended March 31, 2015 and 2014, by major expense category:

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 63,785	$ 69,259	$ (5,474)	(7.9%)
Employee-related costs	109,129	107,181	1,948	1.8%
Operating supplies and services	46,273	56,265	(9,992)	(17.8%)
Maintenance materials and supplies	19,431	20,447	(1,016)	(5.0%)
Customer billing and accounting	15,127	13,205	1,922	14.6%
Other	12,585	11,470	1,115	9.7%
Total	$ 266,330	$ 277,827	$ (11,497)	(4.1%)

Production costs by major expense type were as follows:

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased Water	$ 26,371	$ 27,082	$ (711)	(2.6%)
Fuel and Power	21,194	23,918	(2,724)	(11.4%)
Chemicals	9,597	10,668	(1,071)	(10.0%)
Waste Disposal	6,623	7,591	(968)	(12.8%)
Total	$ 63,785	$ 69,259	$ (5,474)	(7.9%)

Production costs decreased by $5.5 million, or 7.9%, for the three months ended March 31, 2015. The decrease was primarily due to decreases in fuel, power and chemicals costs. The fuel and power decrease was primarily a result of lower fuel and natural prices and a rebate received at one of our subsidiaries in 2015 and as well as higher costs in the prior-year period resulting from the harsh winter weather conditions in 2014 principally in our mid-western states. The decrease in chemical costs is principally due to a sharing mechanism authorized in our Indiana general rate case which allowed for the recognition of prior contamination proceeds that were previously deferred. Also, contributing to the chemical expense reduction is lower chemical usage attributable to a new process for one of our districts in Illinois.

The following table provides information with respect to components of employee-related costs for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$ 80,490	$ 81,083	$ (593)	(0.7%)
Pensions	7,715	6,820	895	13.1%
Group insurance	15,741	14,365	1,376	9.6%
Other benefits	5,183	4,913	270	5.5%
Total	$ 109,129	$ 107,181	$ 1,948	1.8%

The overall increase in employee-related costs for the three months ended March 31, 2015 compared to the same period in 2014 was primarily due to an increase in pension and postretirement benefit costs (which is included in group insurance expenses). These increases are principally due to the adoption of new mortality assumptions based on the Society of Actuaries RP 2014 mortality table and a decrease in the discount rate assumptions, which resulted in increased plan obligations. These increases were partially offset by decreases as a result of the finalization of our California rate case.

Operating supplies and services include expenses for office operation, legal and professional services, including transportation expenses, and information systems and other office equipment rental charges. Overall these costs decreased $10.0 million, or 17.8%, for the three months ended March 31, 2015 compared to the same period in 2014. The decrease was primarily the result of higher incremental costs in 2014 of $3.6 million attributable to the January 2014 Freedom Industries chemical spill in West Virginia, an adjustment of $3.2 million attributable to the recovery of previously expensed business transformation costs as a result of the finalization of rate case in California and decreased transportation costs, principally due to a reduction in costs associated with leased vehicles.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, decreased $1.0 million, or 5.0%, for the three months ended March 31, 2015 compared to the same period in 2014. The decrease is primarily due to decreases in paving, backfilling and other repair costs, which were higher in the first quarter of 2014 due to higher than normal main breaks as a result of the abnormally harsh winter weather conditions experienced throughout our operating areas in 2014.

Customer billing and accounting expenses, which include uncollectible accounts expense, postage and other customer related expenses, increased by $1.9 million, or 14.6%, for the three months ended March 31, 2015 and is attributable to incremental uncollectible expense mainly associated with an increase in installment plans at one of our subsidiaries and an increase in customer accounts receivable attributable to the overall aging of receivables.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. The increase in these costs for the three months ended March 31, 2015 compared to the prior year period was primarily driven by increased casualty insurance costs, as a result an increase in historical claims experience resulting in premium adjustments. The premium adjustments are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature.

Operating expenses. The decrease in operating expenses for the three months ended March 31, 2015 is principally due to the decrease in operation and maintenance expense explained above offset by higher incremental general taxes of $3.1 million, including increased business and occupation taxes in one of our subsidiaries, and higher depreciation and amortization expense.

Market-Based Operations

The following table provides financial information for our Market-Based Operations segment for the periods indicated:

	For the Three Months Ended March 31,		
	2015	2014	Increase (Decrease)
	(In thousands)		
Operating revenues	$ 87,473	$ 75,855	$ 11,618
Operation and maintenance expense	73,533	61,745	11,788
Operating expenses, net	76,032	64,523	11,509
Income from continuing operations before income taxes	12,057	11,977	80

Operating revenues. Revenues for the three months ended March 31, 2015 increased $11.6 million, compared to the same period in 2014, as a result of incremental revenues in our Military Services Group (“Military”) of $8.7 million and HOS of $3.8 million partially offset by lower Contract Operations Group (“ConOps”) revenues. The increase in Military is primarily related to additional revenues from construction project activities associated with our military contracts and the addition of Hill Air Force Base and Picatinny Arsenal in the second half of 2014. The incremental revenues in HOS are primarily the result of contract growth, mainly through our New York City contracts, as well as expansion into other geographic areas. The decrease in Contract Operations group revenue is attributable to a reduction in project activity for one of our projects, which is nearing completion, and a decrease in reimbursable revenues related to lower natural gas prices.

Operation and maintenance. Operation and maintenance expense increased $11.8 million, or 19.1%, for the three months ended March 31, 2015.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Three Months Ended March 31,			
	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 9,087	$ 9,268	$ (181)	(2.0%)
Employee-related costs	15,673	13,720	1,953	14.2%
Operating supplies and services	33,025	25,434	7,591	29.8%
Maintenance materials and supplies	14,287	11,357	2,930	25.8%
Other	1,461	1,966	(505)	(25.7%)
Total	$ 73,533	$ 61,745	$ 11,788	19.1%

As noted in the table above, the primary factor contributing to the overall increase was operating supplies and services. This increase corresponds with the incremental revenues and is mainly attributable to growth in construction project activities under our military contracts, as well as the addition of the two new military contracts discussed above. In addition, the increase in maintenance materials and supplies was primarily due to higher HOS repair costs, which is associated with new contracts as well as an increase in the frequency and severity of the claims.

Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014.

We rely on our revolving credit facility, the capital markets and our cash flows from operations to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and, to the extent necessary, our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and, from time to time, for direct borrowings. As of March 31, 2015, AWCC had no outstanding borrowings and $37.6 million of outstanding letters of credit under the revolving credit facility. As of March 31, 2015, AWCC had $1.2 billion available under the credit facility that we can use to fulfill our short-term liquidity needs, to issue letters of credit and support our $544.5 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

As noted in our Form 10-K, in February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through our dividend reinvestment, employee stock purchase and executive compensation programs. We commenced the program in April 2015 and through May 4, 2015 have repurchased 84.4 thousand shares.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from continuing operating activities for the three months ended March 31, 2015 were $198.6 million compared to $244.9 million for the three months ended March 31, 2014.

The following table provides a summary of the major items affecting our cash flows from operating activities for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
	2015	**2014**
	(In thousands)	
Net income	$ 80,043	$ 68,123
Add (subtract):		
Non-cash activities (1)	149,395	174,110
Changes in working capital (2)	(18,087)	13,355
Pension and postretirement healthcare contributions	(12,732)	(10,714)
Net cash flows provided by operations	$ 198,619	$ 244,874

(1) Includes depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenues, taxes receivable (including income taxes), other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

The decrease in cash flows from operating activities during the three months ended March 31, 2015 as compared to the same period in 2014 reflects changes in working capital and an increase in pension and postretirement benefit contributions of $2.0 million. The decrease in working capital for the three months ended March 31, 2015 compared to the same period in the prior year is principally the result of higher cash collections for our Regulated Businesses in the first quarter of 2014, as we delayed some 2013 billings to the first quarter of 2014 when we implemented our new customer information system in 2013. Also, contributing to the changes in working capital was the timing of accounts payable and an increase in accrued dividends and accrued insurance.

Due to the continued severe drought in California, in April 2015, the Governor of California mandated a water usage restriction that would cut the state’s overall water usage by 25% compared with 2013 levels. As a result of our California subsidiary’s water revenue adjustment mechanism (“WRAM”), which has the effect of reducing the adverse impact of customers’ conservation efforts, such restrictions should not have a significant impact on our result of operations. However, cash flows from operations could be affected as the surcharges or surcredits we recognize on these accounts are collected or refunded to customers through surcharges or surcredits generally over periods ranging from twelve to thirty-six months.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses segment. We address this timing issue through the aforementioned liquidity funding mechanisms.

Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net capital expenditures	$ (226,411)	$ (192,466)
Proceeds from sale of assets and securities	1,214	243
Acquisitions	(48)	(2,279)
Other investing activities, net (1)	(21,271)	(10,698)
Net cash flows used in investing activities	$ (246,516)	$ (205,200)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

The increase in capital expenditures is principally due to less harsh winter conditions in the first quarter of 2015 compared to the same period in 2014 in certain of our Regulated Businesses' territories which allowed for an increase in capital improvements in 2015.

Cash Flows from Financing Activities

The following table provides information regarding cash flows provided by (used in) financing activities for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Repayments of long-term debt	$ (4,291)	$ (3,392)
Proceeds from short-term borrowings	94,572	7,920
Dividends paid	(55,615)	(49,968)
Other financing activities, net (1)	14,445	9,557
Net cash flows provided by (used in) financing activities	$ 49,111	$ (35,883)

(1) Includes proceeds from issuance of employee stock plans and DRIP and advances and contributions for construction, net of refunds.

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be financed with customer advances (net of refunds) and contributions in aid of construction (net of refunds).

As previously noted, AWCC is a wholly-owned finance subsidiary of American Water Works Company, Inc. (the "parent company"). Based on the needs of our regulated subsidiaries and the parent company, AWCC borrows in the capital markets and then, through intercompany loans, provides proceeds of those borrowings to the regulated subsidiaries and the parent company. The regulated subsidiaries and the parent company are obligated to pay to AWCC their respective portion of principal and interest in the amount required to enable AWCC to meet its debt service obligations. Because the parent company borrowings are not a source of capital for the Company's regulated subsidiaries, the Company is not able to recover the interest charges on parent company debt through regulated water and wastewater rates.

We intend to utilize commercial paper for short-term liquidity, as commercial paper borrowings have historically been a more flexible and lower cost option. However, if necessary, we utilize our credit facility to complement our borrowings in the commercial paper market. In the event of disruptions in the money market sector of the debt capital markets, borrowings under our revolving credit facility may be more efficient and a lower cost alternative to commercial paper.

The Company did not issue long-term debt during the first three months of 2015.

The following long-term debt was retired through sinking fund provisions or payment at maturity during the first three months of 2015:

Company	Type	Rate	Maturity	Amount (In thousands)
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	1.79%-2.90%	2021-2031	$ 807
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.30%	2015-2041	2,277
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments	12.17%	2026	7
Total retirements and redemptions				$ 4,291

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other transactions.

Credit Facilities and Short-Term Debt

Short-term debt balance, consisting of commercial paper, net of discount, amounted to $544.5 million at March 31, 2015.

The following table provides information as of March 31, 2015 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sub-limit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
			(In thousands)			
March 31, 2015	$ 1,250,000	$ 1,212,386	$ 150,000	$ 112,386	$ 544,531	$ —

The weighted-average interest rate on short-term borrowings for the three months ended March 31, 2015 and 2014 was approximately 0.47% and 0.32%, respectively.

Capital Structure

The following table provides information regarding our capital structure for the periods presented:

	At March 31, 2015	At December 31, 2014
Total common stockholders' equity	45%	45%
Long-term debt and redeemable preferred stock at redemption value	49%	50%
Short-term debt and current portion of long-term debt	6%	5%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we, or our subsidiaries, may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements. We do not believe this change will materially impact us. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company’s assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. As of March 31, 2015, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

The following table shows the Company's securities ratings as of March 31, 2015:

Securities	**Moody's Investors Service**	**Standard & Poor's Ratings Service**
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

On April 22, 2015, Moody's reaffirmed our Baa1 corporate credit rating for American Water and AWCC and AWCC's "P2" commercial paper rating. At the same time, Moody's revised its rating outlook for American Water and AWCC to positive from stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment if a downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if our debt is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to reference such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

Dividends

On March 2, 2015, we made a cash dividend payment of $0.31 per share to shareholders of record as of February 9, 2015.

On April 28, 2015, our board of directors declared a quarterly cash dividend payment of $0.34 per share payable on June 1, 2015 to shareholders of record as of May 11, 2015. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Market Risk

There have been no significant changes to our market risk since December 31, 2014. For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our Form 10-K for the year ended December 31, 2014.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates," in our Form 10-K for the year ended December 31, 2014 for a discussion of our critical accounting policies.

Recent Accounting Pronouncements

See Part I, Item 1 – Financial Statements (Unaudited) – Note 2 – New Accounting Pronouncements in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see “Market Risk” in Part I, Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 (“the Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of March 31, 2015 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2015, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the "Form 10-K") in Part I, Item 3, "Legal Proceedings".

Alternative Water Supply in Lieu of Carmel River Diversions

On March 18, 2015, the California Public Utilities Commission (“CPUC”) issued a decision approving, in part, the settlement agreement among California-American Water Company (“Cal Am”), the Monterey County Water Resource Agency (“MCWRA”) and the County of Monterey, by authorizing Cal Am’s recovery of $1.9 million of costs advanced to MCWRA, plus interest and fees under the reimbursement agreement and credit line agreement among the Marina Coast Water District (“MCWD”), the MCWRA and Cal Am. These agreements, along with the water purchase agreement and other related ancillary agreements among MCWD, MCWRA and Cal Am relate to the regional desalination project involving the proposed construction of a desalination facility in the City of Marina. The CPUC disallowed the additional recovery of approximately $765,000 without prejudice because there was insufficient information for the CPUC to determine the reasonableness of such amount. Cal Am can file another application for recovery when such amount is known and determinable. On April 17, 2015, the MCWD filed an application with the CPUC for a rehearing of the settlement approval with the MCWRA and Monterey County.

On March 13, 2015, the San Francisco Superior Court (the “Court”) issued a tentative decision on the Complaint for Declaratory Relief filed by Cal Am against MCWRA and MCWD, seeking a determination by the Court as to whether the Agreements are void as a result of the alleged conflict of interest of a former member of the MCWRA board of directors, or remained valid. The Court found that four of the five Agreements are void and a final decision has yet to be issued.

Overflow of Diesel Fuel Tank

On March 2, 2015, Virginia American Water Company ("VAWC") - Hopewell District had an overflow of a diesel fuel day tank at its low lift pump station located along the Appomattox River in Hopewell, Virginia. Approximately 500 gallons of diesel fuel overflowed the day tank and onto the ground and a portion of the fuel ultimately entered the river. VAWC notified first responders and retained Clean Harbors, an emergency response company, to control the overflow area and perform clean-up at the site and in the river. On March 4, 2015, the US Environmental Protection Agency (“EPA”) issued an Emergency Removal/Response Administrative Order directing the performance by VAWC of removal actions to mitigate the release. Removal efforts are ongoing under the Order subject to oversight by the US EPA and the Virginia Department of Environmental Quality ("VDEQ"). VAWC has received a request for information regarding the overflow of the diesel fuel tank from the US EPA and is in the process of preparing its response. On April 1, 2015, the VDEQ issued a Notice of Violation (“NOV”) alleging violations arising from the incident without providing a specific fine or penalty amount. The NOV also alleged violations relating to discharges of chlorinated water into the river that were identified during the course of the response to the Hopewell diesel overflow. VAWC is investigating this issue and has taken steps to prevent any potential for such discharges going forward.

West Virginia Elk River Freedom Industries’ Chemical Spill

On April 9, 2015, the federal district court denied a motion to dismiss all claims against the Company for lack of personal jurisdiction in a case relating to the Freedom Industries’ spill. A separate motion to dismiss filed by American Water Works Service Company, Inc. (“AWWSC”) and West Virginia – American Water Company (“WVAWC”) (and joined by the Company) asserting various legal defenses remains pending. As previously disclosed, four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated class action complaint for those cases (“federal action”) was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with Crude MCHM and provided by WVAWC in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The consolidated complaint names several individuals and corporate entities as defendants, including AWWSC, WVAWC and the Company. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety of alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease.

On May 6, 2015, the Company received a pre-litigation demand letter from a purported stockholder seeking to have the Company's Board of Directors, among other things, commence litigation against any and all persons and entities responsible for matters relating to the Freedom Industries' spill, including the Company's officers and directors. The Board of Directors intends to review the demand letter with its legal advisor and will respond to such letter in due course.

General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2014, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from American Water Works Company, Inc.’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015, filed with the Securities and Exchange Commission on May 6, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders’ Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of May, 2015.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

/S/ Susan N. Story
Susan N. Story
President and Chief Executive Officer
Principal Executive Officer

/S/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
Principal Financial Officer

/S/ Mark Chesla
Mark Chesla
Vice President and Controller
Principal Accounting Officer

EXHIBIT INDEX

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* filed herewith.

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2015

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Linda G. Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 6, 2015

By:/s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2015, as filed with the Securities and exchange Commission on the date hereof (the “Report”), I, Susan N. Story, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

May 6, 2015

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2015, as filed with the Securities and exchange Commission on the date hereof (the “Report”), I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

May 6, 2015

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Section 1: 10-Q (10-Q)

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 June 30, 2015

OR

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

For the transition period from __________to ___________

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

Class	Outstanding at July 30, 2015
Common Stock, $0.01 par value per share	**180,256,635 shares**

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AMERICAN WATER WORKS COMPANY, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2015
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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, 2015	December 31, 2014
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $4,144,789 at June 30 and $3,991,680 at December 31	$ 13,244,298	$ 12,899,704
Nonutility property, net of accumulated depreciation of $247,013 at June 30 and $248,341 at December 31	113,683	129,592
Total property, plant and equipment	13,357,981	13,029,296
Current assets		
Cash and cash equivalents	144,752	23,080
Restricted funds	20,838	13,859
Accounts receivable	281,195	267,053
Allowance for uncollectible accounts	(35,518)	(34,941)
Unbilled revenues	265,347	220,538
Income taxes receivable	3,466	2,575
Materials and supplies	38,332	37,190
Deferred income taxes	130,168	86,601
Other	41,505	45,414
Total current assets	890,085	661,369
Regulatory and other long-term assets		
Regulatory assets	1,195,231	1,153,429
Restricted funds	8,723	8,958
Goodwill	1,209,841	1,208,043
Other	70,471	69,861
Total regulatory and other long-term assets	2,484,266	2,440,291
TOTAL ASSETS	$ 16,732,332	$ 16,130,956

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)

	June 30, 2015	December 31, 2014
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 180,112 shares outstanding at June 30 and 179,462 at December 31)	$ 1,801	$ 1,795
Paid-in-capital	6,324,039	6,301,729
Accumulated deficit	(1,162,346)	(1,295,549)
Accumulated other comprehensive loss	(80,053)	(81,868)
Treasury stock	(30,051)	(10,516)
Total common stockholders' equity	5,053,390	4,915,591
Long-term debt	5,433,239	5,432,744
Redeemable preferred stock at redemption value	14,291	15,501
Total capitalization	10,500,920	10,363,836
Current liabilities		
Short-term debt	820,982	449,959
Current portion of long-term debt	61,962	61,132
Accounts payable	283,570	285,800
Taxes accrued	41,141	24,505
Interest accrued	55,992	56,523
Other	248,541	363,079
Total current liabilities	1,512,188	1,240,998
Regulatory and other long-term liabilities		
Advances for construction	359,498	367,693
Deferred income taxes	2,284,069	2,120,739
Deferred investment tax credits	24,339	25,014
Regulatory liabilities	395,549	391,782
Accrued pension expense	318,647	316,368
Accrued postretirement benefit expense	190,485	192,502
Other	48,027	37,152
Total regulatory and other long-term liabilities	3,620,614	3,451,250
Contributions in aid of construction	1,098,610	1,074,872
Commitments and contingencies (See Note 9)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 16,732,332	$ 16,130,956

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)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Operating revenues	$ 782,121	$ 754,778	$ 1,480,199	$ 1,433,781
Operating expenses				
Operation and maintenance	336,624	337,849	660,456	663,029
Depreciation and amortization	108,923	105,685	216,300	211,609
General taxes	60,222	56,802	123,918	117,469
Gain on asset dispositions and purchases	(1,209)	(345)	(2,337)	(555)
Total operating expenses, net	504,560	499,991	998,337	991,552
Operating income	277,561	254,787	481,862	442,229
Other income (expenses)				
Interest, net	(75,421)	(73,668)	(151,094)	(147,228)
Allowance for other funds used during construction	2,835	2,058	5,195	4,259
Allowance for borrowed funds used during construction	1,542	1,271	4,064	2,754
Amortization of debt expense	(1,878)	(1,629)	(3,642)	(3,302)
Other, net	(1,012)	(316)	744	(1,857)
Total other income (expenses)	(73,934)	(72,284)	(144,733)	(145,374)
Income from continuing operations before income taxes	203,627	182,503	337,129	296,855
Provision for income taxes	80,552	72,329	134,011	117,568
Income from continuing operations	123,075	110,174	203,118	179,287
Loss from discontinued operations, net of tax	—	(875)	—	(1,865)
Net income	$ 123,075	$ 109,299	$ 203,118	$ 177,422
Other comprehensive income (loss), net of tax:				
Pension amortized to periodic benefit cost:				
Prior service cost, net of tax of $25 and $26 for the three months and $50 and $53 for the six months, respectively	39	42	$ 78	$ 83
Actuarial (gain) loss, net of tax of $832 and $(5) for the three months and $1,664 and $(10) for the six months, respectively	1,302	(8)	2,604	(15)
Foreign currency translation adjustment	90	446	(906)	(104)
Unrealized loss on cash flow hedge, net of tax of $11 for the three months and $21 for the six months, respectively	19	—	39	—
Other comprehensive income (loss)	1,450	480	1,815	(36)
Comprehensive income	$ 124,525	$ 109,779	$ 204,933	$ 177,386
Basic earnings per share: (a)				
Income from continuing operations	$ 0.69	$ 0.62	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.01)
Net income	$ 0.69	$ 0.61	$ 1.13	$ 0.99
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.68	$ 0.61	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.01)
Net income	$ 0.68	$ 0.61	$ 1.13	$ 0.99
Average common shares outstanding during the period				
Basic	179,564	178,863	179,511	178,702
Diluted	180,371	179,693	180,348	179,512
Dividends declared per common share	$ 0.34	$ 0.31	$ 0.34	$ 0.31

(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)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 203,118	$ 177,422
Adjustments to reconcile to net cash flows provided by operating activities		
Depreciation and amortization	216,300	211,940
Deferred income taxes and amortization of investment tax credits	127,448	108,294
Provision for losses on accounts receivable	13,889	17,014
Allowance for other funds used during construction	(5,195)	(4,259)
Gain on asset dispositions and purchases	(2,337)	(615)
Pension and non-pension postretirement benefits	30,649	12,038
Other non-cash, net	(12,168)	26,633
Changes in assets and liabilities		
Receivables and unbilled revenues	(72,263)	(53,745)
Taxes accrued, including income taxes	15,745	4,667
Pension and non-pension postretirement benefit contributions	(25,464)	(21,433)
Accounts payable and accrued expenses	(10,006)	(52,168)
Other current assets and liabilities, net	(61,721)	24,827
Net cash provided by operating activities	417,995	450,615
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(478,821)	(401,781)
Acquisitions and related costs	(41,244)	(2,869)
Proceeds from sale of assets	4,780	665
Removal costs from property, plant and equipment retirements, net	(45,929)	(31,366)
Net funds restricted	(5,961)	(2,823)
Net cash used in investing activities	(567,175)	(438,174)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	7,748	—
Repayment of long-term debt	(5,694)	(4,565)
Proceeds from short-term borrowings with maturities greater than three months	60,000	35,000
Repayment of short-term borrowings with maturities greater than three months	—	(256,000)
Net short-term borrowings with maturities less than three months	311,023	293,131
Proceeds from issuances of employee stock plans and dividend reinvestment plan	12,808	12,169
Advances and contributions for construction, net of refunds of $11,430 and $10,459 at June 30, 2015 and 2014, respectively	13,051	8,401
Debt issuance costs	(2,006)	—
Dividends paid	(116,649)	(105,390)
Anti-dilutive share repurchase	(13,226)	—
Tax benefit realized from equity compensation	3,797	9,982
Net cash provided by (used in) financing activities	270,852	(7,272)
Net increase in cash and cash equivalents	121,672	5,169
Cash and cash equivalents at beginning of period	23,080	26,964
Cash and cash equivalents at end of period	$ 144,752	$ 32,133
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	$ 191,521	$ 115,127
Non-cash financing activity:		
Advances and contributions	$ 8,413	$ 6,060
Long-term debt issued	$ —	$ 9,977
Long-term debt retired	$ —	$ (875)

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 thousands)

	Common Stock				Accumulated Other	Treasury Stock		Total
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Shares	At Cost	Stockholders' Equity
Balance at December 31, 2014	179,462	$ 1,795	$ 6,301,729	$ (1,295,549)	$ (81,868)	(261)	$ (10,516)	$ 4,915,591
Cumulative effect of change in accounting principle	—	—	—	(8,395)	—	—	—	(8,395)
Net income	—	—	—	203,118	—	—	—	203,118
Direct stock reinvestment and purchase plan, net of expense of $28	53	—	2,827	—	—	—	—	2,827
Employee stock purchase plan	47	—	2,574	—	—	—	—	2,574
Stock-based compensation activity	550	6	16,909	(423)	—	(113)	(6,309)	10,183
Repurchase of common stock	—	—	—	—	—	(250)	(13,226)	(13,226)
Other comprehensive income, net of tax of $1,735	—	—	—	—	1,815	—	—	1,815
Dividends	—	—	—	(61,097)	—	—	—	(61,097)
Balance at June 30, 2015	180,112	$ 1,801	$ 6,324,039	$ (1,162,346)	$ (80,053)	(624)	$ (30,051)	$ 5,053,390

	Common Stock				Accumulated Other	Treasury Stock		Total
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Shares	At Cost	Stockholders' Equity
Balance at December 31, 2013	178,379	$ 1,784	$ 6,261,396	$ (1,495,698)	$ (34,635)	(132)	$ (5,043)	$ 4,727,804
Net income	—	—	—	177,422	—	—	—	177,422
Direct stock reinvestment and purchase plan, net of expense of $14	23	—	1,017	—	—	—	—	1,017
Employee stock purchase plan	53	—	2,347	—	—	—	—	2,347
Stock-based compensation activity	686	7	25,642	(417)	—	(122)	(5,179)	20,053
Other comprehensive loss, net of tax of $43	—	—	—	—	(36)	—	—	(36)
Dividends	—	—	—	(55,481)	—	—	—	(55,481)
Balance at June 30, 2014	179,141	$ 1,791	$ 6,290,402	$ (1,374,174)	$ (34,671)	(254)	$ (10,222)	$ 4,873,126

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

Note 1: Basis of Presentation

The unaudited consolidated financial statements provided in this report include the accounts of American Water Works, Company, Inc. and its subsidiaries (collectively, the “Company”) after the elimination of intercompany accounts and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position at June 30, 2015 and results of operations and cash flows for all periods presented have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

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

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

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

Note 2: New Accounting Pronouncements

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

Service Concession Arrangements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued guidance for an operating entity that enters into a service concession arrangement with a public sector grantor who controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide the services and at what price. The grantor must also control, 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 such an arrangement should not be recognized as property, plant and equipment of the operating entity. To comply with this guidance, application was required on a modified retrospective basis to service concession arrangements that existed at January 1, 2015. The Company reduced nonutility property and other long-term assets for infrastructure related to service concession arrangements and recognized a cumulative effect adjustment of $8,395, net of tax, to the opening balance of accumulated deficit at January 1, 2015.

Reporting Discontinued Operations

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

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

Revenue from Contracts with Customers

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to receive in exchange for those goods or services. The guidance was originally effective for annual and interim periods beginning after December 15, 2016 (January 1, 2017 for the Company). Early adoption was not permitted. The new guidance allows for either full retrospective adoption, meaning the guidance is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The FASB voted on July 9, 2015 to defer the effective date of the new revenue recognition standard by one year, to annual reporting periods beginning after December 15, 2017 (January 1, 2018 for the Company). Additionally in its decision, the FASB decided to permit early adoption of the standard, but not before annual periods beginning after December 15, 2016 (January 1, 2017 for the Company). The Company is evaluating the new guidance, the best transition method and the impact the new standard will have on the Company's results of operations, financial position or cash flows.

Accounting for Stock-based Compensation with Performance Targets

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

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

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

Amendments to the Consolidation Analysis

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

Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance on imputation of interest and simplifying the presentation of debt issuance costs. The updated guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Such treatment is consistent with the current presentation of debt discounts or premiums. Prior to this amendment, debt issuance costs were reported in the balance sheet as an asset (i.e., a deferred charge), whereas debt discounts and premiums were, and remain, reported as deductions from or additions to the debt itself. Recognition and measurement guidance for debt issuance costs is not affected by the amendments. The effective date is for financial statements covering fiscal years beginning after December 15, 2015 (January 1, 2016 for the Company) and interim periods within fiscal years beginning after December 15, 2016 (January 1, 2017 for the Company). Early adoption is permitted for financial statements that have not been previously issued. The amended guidance must be applied on a retrospective basis. Thus, balance sheets for each period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The Company is evaluating the new guidance and does not expect this new guidance to have a material impact on its results of operations, financial position or cash flows.

Accounting for Fees Paid in a Cloud Computing Arrangement

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

Note 3: Acquisitions and Divestitures

Acquisitions

During the six-month period ended June 30, 2015, the Company closed on three acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $41,175. Assets acquired, principally plant, totaled $65,708, including $1,798 of goodwill, and liabilities assumed totaled $22,301, including $7,707 of contributions in aid of construction and other long-term liabilities of $14,039.

On July 9, 2015, the Company made a strategic acquisition in Water Solutions Holdings, LLC, a Delaware limited liability company, including its wholly owned subsidiary, Keystone Clearwater Solutions ("Keystone"), by acquiring a ninety-five percent interest in the entity for approximately $130,000. Keystone is a water service provider that offers a range of water related services to the oil and gas industry primarily in the Appalachian region of Pennsylvania, Ohio and West Virginia. The acquisition agreement calls for purchase price adjustments related to working capital, capital expenditures and results of operations through the date of close. The Company also entered into an agreement giving it the right to purchase the remaining membership interests upon the occurrence of certain triggering events or at defined dates of December 31, 2016 and December 31, 2018. The owners of the remaining membership interests also have the right to sell their membership interests upon the occurrence of these same triggering events or defined dates. The Company is in the process of determining the purchase price allocation for this acquisition.

Divestitures

In November 2014, the Company completed the sale of Terratec Environmental Ltd ("Terratec") previously included in the Market-Based Operations segment. A summary of discontinued operations presented in the Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2014 is as follows:

	Three Months Ended June 30,	Six Months Ended June 30,
	2014	2014
Operating revenues	$ 4,381	$ 7,324
Total operating expenses, net	5,394	9,683
Operating loss	(1,013)	(2,359)
Other income (expenses), net	(1)	(1)
Loss from discontinued operations before income taxes	(1,014)	(2,360)
Benefit from income taxes	(139)	(495)
Loss from discontinued operations	$ (875)	$ (1,865)

Note 4: Stockholders’ Equity

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2015 and 2014, respectively:

	Defined Benefit Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial (Gain) Loss	Foreign Currency Translation	Loss on Cash Flow Hedge	Total Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2015	$ (115,830)	$ 879	$ 31,119	$ 2,755	$ (791)	$ (81,868)
Other comprehensive income (loss) before reclassifications	—	—	—	(906)	—	(906)
Amounts reclassified from accumulated other comprehensive income (loss)	—	78	2,604	—	39	2,721
Net comprehensive income (loss) for the period	—	78	2,604	(906)	39	1,815
Ending balance at June 30, 2015	$ (115,830)	$ 957	$ 33,723	$ 1,849	$ (752)	$ (80,053)
Beginning balance at January 1, 2014	$ (69,711)	$ 713	$ 31,150	$ 3,213	$ —	$ (34,635)
Other comprehensive income (loss) before reclassifications	—	—	—	(104)	—	(104)
Amounts reclassified from accumulated other comprehensive income (loss)	—	83	(15)	—	—	68
Net comprehensive income (loss) for the period	—	83	(15)	(104)	—	(36)
Ending balance at June 30, 2014	$ (69,711)	$ 796	$ 31,135	$ 3,109	$ —	$ (34,671)

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

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

Antidilutive Stock Repurchase Program

In February 2015, the Company’s Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to mitigate the dilutive effect of shares issued through the Company’s dividend reinvestment, employee stock purchase and executive compensation activities. This program allows the Company to purchase up to 10,000 shares of its outstanding common stock over an unrestricted period of time to minimize dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions. The program is being conducted in accordance with Rule 10b-18 of the Securities Exchange Act, as amended, and to facilitate the purchases, the Company has also entered into a Rule 10b5-1 share repurchase plan with a broker.

The shares repurchased are held as treasury shares, at cost, until cancelled or reissued at the discretion of the Company’s management. During the three months ended June 30, 2015, the Company repurchased 250 shares of common stock in the open market at an aggregate cost of $13,231 under the program.

Stock Options

In the first six months of 2015, the Company granted non-qualified stock options to certain employees under the Company’s 2007 Omnibus Equity Compensation Plan (the “2007 Plan”). The stock options vest ratably over the three-year service period beginning January 1, 2015. These awards have no performance vesting conditions and the grant date fair value is amortized through expense over the requisite service period using the straight-line method.

The following table presents the weighted-average assumptions used in the Black-Scholes option-pricing model and the resulting weighted-average grant date fair value per share of stock options granted during the six months ended June 30, 2015:

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

Stock options granted under the 2007 Plan have a maximum term of seven years, vest over periods ranging from one to three years, and are granted with exercise prices equal to the fair market value of the Company’s common stock on the date of grant. As of June 30, 2015, $2,222 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.9 years.

The table below summarizes stock option activity for the six months ended June 30, 2015:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2015	1,910	$ 33.47		
Granted	301	52.75		
Forfeited or expired	(39)	44.18		
Exercised	(262)	29.49		
Options outstanding at June 30, 2015	1,910	$ 36.83	3.4	$ 23,757
Exercisable at June 30, 2015	1,358	$ 32.16	2.4	$ 22,369

The following table summarizes additional information regarding stock options exercised during the six months ended June 30, 2015 and 2014:

	2015	2014
Intrinsic value	$ 6,218	$ 6,691
Exercise proceeds	7,717	9,075
Income tax benefit	1,928	1,951

Restricted Stock Units

During 2012, the Company granted selected employees an aggregate of 158 restricted stock units with internal performance measures and, separately, certain market thresholds. These awards vested in January 2015. The terms of the grants generally specified that to the extent certain performance goals, comprised of internal measures and market thresholds, were achieved, the restricted stock units would vest; if target performance was surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, the awards would be forfeited. In January 2015, 93 shares of common stock were issued pursuant to the vesting of these restricted stock units because performance thresholds were exceeded.

In June 2015, the Company granted 15 restricted stock units to non-employee directors under the 2007 Plan. The restricted stock units vested on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (a) 15 months after grant date or (b) the participant’s separation from service. Because these restricted stock units vested on grant date, the total grant date fair value was recorded in operation and maintenance expense on the grant date.

In the first six months of 2015, the Company granted restricted stock units, both with and without performance conditions, to certain employees under the 2007 Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1, 2015 and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1, 2015 (the “Performance Period”). Vesting of the shares underlying the restricted stock units with performance conditions is contingent upon the achievement of internal performance measures and, separately, certain market thresholds over the Performance Period. The restricted stock units granted with service-only conditions and those with internal performance measures are valued at the market value of the Company’s common stock on the date of grant. The restricted stock units granted with market conditions are valued using a Monte Carlo model.

The following table presents the weighted-average assumptions used in the Monte Carlo simulation for restricted stock units with market conditions granted during the six months ended June 30, 2015:

Expected volatility	14.93%
Risk-free interest rate	1.07%
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, 2015, $7,314 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 1.4 years.

The table below summarizes restricted stock unit activity for the six months ended June 30, 2015:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2015	516	$ 41.46
Granted	150	55.63
Performance share adjustment	93	38.11
Vested	(302)	39.40
Forfeited	(19)	44.80
Non-vested total at June 30, 2015	438	$ 46.88

The following table summarizes additional information regarding restricted stock units distributed during the six months ended June 30, 2015 and 2014:

	2015	2014
Intrinsic value	$ 15,931	$ 14,266
Income tax benefit	1,900	1,551

If dividends are paid with respect to shares of the Company’s common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $423 and $417 to retained earnings during the six months ended June 30, 2015 and 2014, respectively.

Note 5: Long-Term Debt

The following long-term debt was issued during the first six months of 2015:

Company	Type	Rate	Maturity	Amount
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.00%	2022	$ 7,748

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

Company	Type	Rate	Maturity	Amount
American Water Capital Corp.(a)	Private activity bonds and government funded debt—fixed rate	1.79%-2.90%	2021-2031	$ 807
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.30%	2015-2041	3,671
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments	12.23%	2026	16
Total retirements and redemptions				$ 5,694

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

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

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

Balance sheet classification	June 30, 2015	December 31, 2014
Regulatory and other long-term assets		
Other	$ 3,472	$ 3,636
Long-term debt		
Long-term debt	3,396	3,570

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 June 30,		Six Months Ended June 30,	
Income statement classification	2015	2014	2015	2014
Interest, net				
Gain (loss) on swap	$ (402)	$ 174	$ (164)	$ (203)
Gain (loss) on borrowing	398	(75)	174	253
Hedge ineffectiveness	(4)	99	10	50

Note 6: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $820,982 (net of discount of $218) at June 30, 2015 and $449,959 (net of discount of $41) at December 31, 2014. At June 30, 2015, there are $60,000 of borrowings with maturities greater than three months. At December 31, 2014, there were no borrowings outstanding with maturities greater than three months.

On June 30, 2015, the Company, American Water Capital Corp. (“AWCC”), and AWCC’s lenders amended and restated AWCC’s outstanding credit agreement, dated as of October 29, 2012, associated with the revolving credit facility, to extend the expiration date of the facility from October 2018 to June 2020 and, subject to the terms of the credit agreement, to allow AWCC to request to extend further the term of the credit facility for up to two one-year periods. The financial covenants with respect to the credit facility remained unchanged.

Note 7: Income Taxes

The Company's estimated annual effective tax rate for the six months ended June 30, 2015 was 39.5% compared to 39.8% for the six months ended June 30, 2014, excluding various discrete items.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Actual effective tax rate	39.6%	39.6%	39.8%	39.6%

Note 8: Pension and Other Postretirement Benefits

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Components of net periodic pension benefit cost				
Service cost	$ 9,334	$ 7,944	$ 18,668	$ 15,887
Interest cost	18,576	19,163	37,152	38,326
Expected return on plan assets	(24,366)	(23,710)	(48,732)	(47,419)
Amortization of:				
Prior service cost	189	181	377	362
Actuarial (gain) loss	6,277	(32)	12,554	(65)
Net periodic pension benefit cost	$ 10,010	$ 3,546	$ 20,019	$ 7,091
Components of net periodic other postretirement benefit cost				
Service cost	$ 3,444	$ 2,765	$ 6,887	$ 5,529
Interest cost	7,465	7,151	14,931	14,302
Expected return on plan assets	(6,299)	(6,875)	(12,598)	(13,750)
Amortization of:				
Prior service credit	(548)	(547)	(1,095)	(1,094)
Actuarial (gain) loss	1,253	(20)	2,505	(40)
Net periodic other postretirement benefit cost	$ 5,315	$ 2,474	$ 10,630	$ 4,947

The Company contributed $12,200 to its defined benefit pension plans in the first six months of 2015 and expects to contribute $15,800 during the balance of 2015. In addition, the Company contributed $13,264 for the funding of its other postretirement plans in the first six months of 2015 and expects to contribute $13,263 during the balance of 2015.

Note 9: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At June 30, 2015, the Company has accrued approximately $3,800 of probable loss contingencies and has estimated that the maximum amount of losses associated with reasonably possible loss contingencies is $29,600. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements recovered by plaintiffs in such claims or actions, if any, will not, individually or in the aggregate, have a material adverse effect on the Company's results of operations, financial position or cash flows.

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone and Putnam counties. Fifty-two of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. ("AWWSC," and together with WVAWC and the Company, the "American Water Defendants") were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases back to the state courts and have been consolidated for the sole purpose of resolving venue issues. Four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated complaint for those cases was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with Crude MCHM and provided by WVAWC in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The amended consolidated complaint names several individuals and corporate entities as defendants, including the American Water Defendants. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety or alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease.

On April 9, 2015, the court in the Federal action denied a motion to dismiss all claims against the Company for lack of personal jurisdiction. A separate motion to dismiss filed by AWWSC and WVAWC (and joined by the Company) asserting various legal defenses in the Federal action was resolved by the court on June 3, 2015. The court dismissed three causes of action but denied the motion to dismiss with respect to the remaining causes of actions and allowed the plaintiffs to continue to pursue the various claims for damages alleged in their amended consolidated complaint. On July 6, 2015, the plaintiffs filed a motion seeking certification of a class defined to include persons who resided in dwellings served by WVAWC's Kanawha Valley Treatment Plant ("KVTP") on January 9, 2014, persons who owned businesses served by the KVTP on January 9, 2014, and hourly employees who worked for such businesses. The plaintiffs seek a class-wide determination of liability against the American Water Defendants, among others, and of damages to the three groups of plaintiffs as a result of the "Do Not Use" order that was issued after the Freedom Industries spill. This motion remains pending. On July 22, 2015, the court directed the parties to the Federal action to attend mediation scheduled for September 30, 2015. It is expected that the plaintiffs in the 53 state court cases, which were removed to federal court and are presently subject to stayed motions to remand to state court, will also participate in this mediation. The Company believes that the causes of action asserted against the American Water Defendants in the lawsuits described above are without merit and continues to vigorously defend itself in these proceedings.

Note 10: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $1,100 and $2,200 at June 30, 2015 and December 31, 2014, respectively. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 through 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at June 30, 2015 and December 31, 2014 include $7,794 and $7,791, respectively, related to the NOAA agreement.

Note 11: Earnings per Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Basic	2015	2014	2015	2014
Income from continuing operations	$ 123,075	$ 110,174	$ 203,118	$ 179,287
Loss from discontinued operations, net of tax	—	(875)	—	(1,865)
Net income	123,075	109,299	203,118	177,422
Less: Distributed earnings to common shareholders	61,394	55,647	117,041	105,775
Less: Distributed earnings to participating securities	19	17	32	32
Undistributed earnings	61,662	53,635	86,045	71,615
Undistributed earnings allocated to common shareholders	61,646	53,619	86,025	71,593
Undistributed earnings allocated to participating securities	16	16	20	22
Total income from continuing operations available to common shareholders, basic	$ 123,040	$ 110,141	$ 203,066	$ 179,233
Total income available to common shareholders, basic	$ 123,040	$ 109,266	$ 203,066	$ 177,368
Weighted-average common shares outstanding, basic	179,564	178,863	179,511	178,702
Basic earnings per share: (a)				
Income from continuing operations	$ 0.69	$ 0.62	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.01)
Net income	$ 0.69	$ 0.61	$ 1.13	$ 0.99

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Diluted	2015	2014	2015	2014
Total income from continuing operations available to common shareholders, basic	$ 123,040	$ 110,141	$ 203,066	$ 179,233
Loss from discontinued operations, net of tax	—	(875)	—	(1,865)
Total income available to common shareholders, basic	123,040	109,266	203,066	177,368
Undistributed earnings for participating securities	16	16	20	22
Total income from continuing operations available to common shareholders, diluted	$ 123,056	$ 110,157	$ 203,086	$ 179,255
Total income available to common shareholders, diluted	$ 123,056	$ 109,282	$ 203,086	$ 177,390
Weighted-average common shares outstanding, basic	179,564	178,863	179,511	178,702
Common stock equivalents:				
Restricted stock units	395	379	393	358
Stock options	409	449	440	451
Employee stock purchase plan	3	2	4	1
Weighted-average common shares outstanding, diluted	180,371	179,693	180,348	179,512
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.68	$ 0.61	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.01)
Net income	$ 0.68	$ 0.61	$ 1.13	$ 0.99

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock options	295	346	295	490
Restricted stock units where certain performance conditions were not met	42	80	42	80

Note 12: Fair Value of Financial Assets and Liabilities

Fair Value of Financial Instruments

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

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility debt securities with a bond credit rating of A-. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

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

		At Fair Value as of June 30, 2015			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 15,941	$ —	$ —	$ 20,195	$ 20,195
Long-term debt (excluding capital lease obligations)	5,492,681	2,814,037	1,460,219	2,010,748	6,285,004

		At Fair Value as of December 31, 2014			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 17,151	$ —	$ —	$ 22,167	$ 22,167
Long-term debt (excluding capital lease obligations)	5,491,341	2,874,622	1,474,708	2,055,058	6,404,388

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2015 and December 31, 2014, respectively:

	At Fair Value as of June 30, 2015			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Restricted funds	$ 36,738	$ —	$ —	$ 36,738
Rabbi trust investments	—	12,531	—	12,531
Deposits	1,322	—	—	1,322
Mark-to-market derivative asset	—	3,472	—	3,472
Total assets	38,060	16,003	—	54,063
Liabilities				
Deferred compensation obligation	—	11,789	—	11,789
Mark-to-market derivative liability	—	887	—	887
Total liabilities	—	12,676	—	12,676
Total net assets	$ 38,060	$ 3,327	$ —	$ 41,387

	At Fair Value as of December 31, 2014			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Restricted funds	$ 45,182	$ —	$ —	$ 45,182
Rabbi trust investments	—	11,751	—	11,751
Deposits	4,158	—	—	4,158
Mark-to-market derivative asset	—	3,636	—	3,636
Total assets	49,340	15,387	—	64,727
Liabilities				
Deferred compensation obligation	—	11,765	—	11,765
Mark-to-market derivative liability	—	1,012	—	1,012
Total liabilities	—	12,777	—	12,777
Total net assets	$ 49,340	$ 2,610	$ —	$ 51,950

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Also included in restricted funds above is $7,177 and $22,366 of money market funds held in trust for active employee benefits, at June 30, 2015 and December 31, 2014, respectively, which the Company includes in other current assets in the accompanying Consolidated Balance Sheets.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of equity and fixed income indexed funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Note 13: Segment Information

The Company has two operating segments that are also the Company’s two reportable segments, referred to as Regulated Businesses and Market-Based Operations. The following table includes the Company’s summarized segment information:

As of or for the Three Months Ended June 30, 2015

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 686,811	$ 99,976	$ (4,666)	$ 782,121
Depreciation and amortization	102,002	1,134	5,787	108,923
Total operating expenses, net	428,176	82,844	(6,460)	504,560
Income from continuing operations before income taxes	198,756	17,737	(12,866)	203,627
Total assets	14,777,921	329,156	1,625,255	16,732,332

As of or for the Three Months Ended June 30, 2014

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 678,101	$ 81,022	$ (4,345)	$ 754,778
Depreciation and amortization	98,181	1,458	6,046	105,685
Total operating expenses, net	435,429	67,639	(3,077)	499,991
Income from continuing operations before income taxes	182,418	13,982	(13,897)	182,503
Total assets	13,857,864	293,696 (a)	1,274,887	15,426,447

As of or for the Six Months Ended June 30, 2015

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 1,302,221	$ 187,449	$ (9,471)	$ 1,480,199
Depreciation and amortization	201,970	2,198	12,132	216,300
Total operating expenses, net	852,587	158,876	(13,126)	998,337
Income from continuing operations before income taxes	332,898	29,794	(25,563)	337,129
Total assets	14,777,921	329,156	1,625,255	16,732,332

As of or for the Six Months Ended June 30, 2014

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 1,285,745	$ 156,877	$ (8,841)	$ 1,433,781
Depreciation and amortization	196,964	2,908	11,737	211,609
Total operating expenses, net	867,386	132,162	(7,996)	991,552
Income from continuing operations before income taxes	297,446	25,959	(26,550)	296,855
Total assets	13,857,864	293,696 (a)	1,274,887	15,426,447

(a) Amount includes assets of discontinued operations of $3,845.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future" and "intends" and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the "Risk Factors" section or other sections in the Company's annual report on Form 10-K ("Form 10-K") for the year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC"). We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. ("American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. These utilities are generally subject to economic regulation by state regulatory agencies in the states in which they operate. We report the financial results of these utilities in our Regulated Businesses segment. We also provide other services through businesses that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment. For further description of our businesses see Part I, Item 1, "Business," in our Form 10-K.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K.

Overview

Financial Results

Highlights of our operating results per diluted share for the three and six months ended June 30, 2015 compared to same periods during 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Income from continuing operations	$ 0.68	$ 0.61	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ 0.00	$ 0.00	$ (0.01)
Diluted earnings per share	$ 0.68	$ 0.61	$ 1.13	$ 0.99

Continuing Operations

Income from continuing operations increased 7 cents and 13 cents per diluted share for the quarter and year-to-date, respectively. Excluding the costs related to the Freedom Industries chemical spill in West Virginia of 2 cents and 4 cents per diluted share for the three and six months ended June 30, 2014, earnings for the three and six months ended June 30, 2015, increased 5 cents and 9 cents per diluted share, respectively, mainly due to continued revenue growth in our Regulated Businesses and Market-Based Operations segments and lower operating and maintenance expenses in our Regulated Businesses segment. Also, adding to the increase for the six months ended June 30, 2015 was the finalization of our California general rate case.

Discontinued Operations

In the fourth quarter of 2014, we sold our Terratec line of business, which was part of our Market-Based Operations segment. The after-tax loss from discontinued operations for both the three and six months ended June 30, 2014 includes the operating results of the entity prior to the sale.

Regulatory Matters

The table below provides details by state and effective date in 2015 of annualized revenues awarded assuming a constant volume, resulting from rate authorizations:

	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2015
	(In millions)	
State		
General Rate Cases:		
Maryland (June 19)	$ 0.5	$ 0.5
Indiana (January 29)	—	5.1
California (January 1)	—	5.2
Total General Rate cases	$ 0.5	$ 10.8
Infrastructure charges:		
Pennsylvania (April 1)	$ 1.6	$ 1.6
Tennessee (June 30)	2.2	2.2
Missouri (June 27) (a)	1.9	1.9
New Jersey (January 1)	—	9.4
Illinois (b)	—	5.9
New York (June 1)	0.1	0.1
Total Infrastructure charges	$ 5.8	$ 21.1

(a) The Office of the Public Counsel filed an appeal notice claiming St. Louis County no longer meets the required population requirement for an infrastructure charge.
(b) Rates of $4.9 million and $1.0 million became effective January 1, 2015 and February 1, 2015, respectively.

On April 9, 2015, our California general rate case settlement was approved by the California Public Utilities Commission (the "CPUC"), with rates retroactive to January 1, 2015. The settlement, which also allowed for recovery of prior expenditures incurred related to our business transformation project and authorized a sharing mechanism for prior contamination proceeds that were previously deferred, was reflected in 2015 first quarter results.

On April 30, 2015, our West Virginia subsidiary filed a general rate case requesting additional annualized water and wastewater revenue of approximately $35.6 million.

Following the close of the second quarter, additional annualized revenue of $4.6 million resulting from infrastructure charges in our Pennsylvania subsidiary became effective on July 1, 2015. Also, additional annualized revenue of $0.2 million resulting from the approval of our general wastewater rate case in Kentucky became effective on July 2, 2015.

In July 2015, our California subsidiary filed an application with the CPUC to request changes to the present rate design and the emergency conservation and rationing plan for water customers in certain areas within its Monterey County service district. If approved, the proposed changes would allow (i) recovery in authorized cost of service of existing under-collections of the net water revenue adjustment mechanism/ modified cost balancing account ("WRAM/MCBA") balance, currently amounting to approximately $45 million, over 20 years earning a pretax rate of 8.41%; (ii) an annual consumption true-up mechanism and rate design that provide for more timely collection of the cost of service; and (iii) modification of existing conservation and rationing plans. We expect a CPUC decision in mid to late 2016.

On July 31, 2015, our Missouri subsidiary filed a general rate case requesting additional annualized revenue of approximately $25.2 million.

As of July 31, 2015, we are awaiting final general rate case orders in three states, requesting additional annualized revenue of $127.0 million. There is no assurance that all or any portion of these requests will be granted.

Focusing on Central Themes

For 2015, our focus is anchored on five central themes: 1) Customers, 2) Safety, 3) People, 4) Growth and 5) Operational Efficiency. We will continue our focus on operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces value for our shareholders. Additionally, we will continue our ongoing strategy that ensures a safe workplace for our employees, emphasizes public safety for our customers, and leverages our people resources, processes and technology innovation to make our business more effective and efficient. The progress that we have made in the first six months of 2015 with respect to growth and improvement in our operational efficiency ratio is described below.

Growth - Infrastructure improvements, acquisitions and strategic investments

During the first half of 2015, we made capital investments of approximately $514.9 million, consisting of approximately $473.6 million to improve infrastructure in our Regulated Businesses and the remaining $41.3 million for acquisitions of regulated operations. For the full-year of 2015, our total capital investment is expected to be in the range of $1.2 to $1.3 billion, most of which will be allocated to improving infrastructure in our Regulated Businesses with an additional $200 million allocated for acquisitions and strategic investments.

On April 30, 2015, we announced the signing of an agreement to acquire Environmental Disposal Corporation (“EDC”), which provides wastewater services to more than 5,300 customer accounts located in New Jersey. The acquisition is pending approval by the New Jersey Board of Public Utilities.

On May 21, 2015, upon the approval of the New Jersey Board of Public Utilities, we completed our acquisition of the Borough of Haddonfield’s water and wastewater system and on May 22, 2015, we completed the acquisition of the City of Arnold, Missouri’s wastewater system. These acquisitions added approximately 4,500 water and 13,800 wastewater customers to our regulated operations.

On July 9, 2015, we made a strategic acquisition in Water Solutions Holdings, LLC, including its wholly owned subsidiary, Keystone Clearwater Solutions (“Keystone”), by acquiring a ninety-five percent interest in the entity with a purchase price of approximately $130 million. Keystone is a water service provider that offers a range of water-related services to the oil and gas industry primarily in the Appalachian region of Pennsylvania, Ohio and West Virginia.

Technology and Operational Efficiency - Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our operation and maintenance (“O&M”) efficiency ratio (a non-GAAP measure). Our O&M efficiency ratio for the twelve months ended June 30, 2015 was 35.9%, compared to 37.7% for the twelve months ended June 30, 2014. The improvement in the 2015 O&M efficiency ratio over this period was principally attributable to an increase in Regulated Businesses’ revenue and a decrease in the O&M expenses.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses’ operations. This information is intended to enhance an investor’s overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies’ operating measures and should not be used in place of the GAAP information provided elsewhere in this report.

Our O&M efficiency ratio is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also excluded from operating revenues and O&M expenses the estimated impact from changes in consumption as a result of weather and the West Virginia Freedom Industries chemical spill. Additionally, from the O&M expenses, we exclude the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the Statement of Operations. We exclude these items from the calculation as we believe such items are not reflective of management’s ability to increase efficiency of the Company’s regulated operations.

The following table provides the calculation and reconciliation that compares O&M and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our O&M efficiency ratio for the twelve months ended June 30, 2015 as compared to the same period in 2014.

Calculation and Reconciliation of Regulated O&M Efficiency Ratio (a Non-GAAP Measure):

	For the Twelve Months Ended June 30,	
	2015	2014
	(In thousands)	
Total Operation and Maintenance Expense	$ 1,347,291	$ 1,326,931
Less:		
Operation and maintenance expense—Market-Based Operations	316,456	254,668
Operation and maintenance expense—Other	(55,333)	(53,896)
Total Regulated Operation and Maintenance Expense	1,086,168	1,126,159
Less:		
Regulated purchased water expense	118,708	119,974
Allocation of non-operation and maintenance expense	39,165	36,027
Impact of West Virginia Freedom Industries chemical spill	618	9,820
Estimated impact of weather (mid-point of range)	(1,762)	(893)
Adjusted Regulated Operation and Maintenance Expense (a)	$ 929,439	$ 961,231
Total Operating Revenues	$ 3,057,746	$ 2,962,213
Less:		
Operating revenues—Market-Based Operations	385,250	321,226
Operating revenues—Other	(18,309)	(17,541)
Total Regulated Operating Revenues	2,690,805	2,658,528
Less:		
Regulated purchased water expense*	118,708	119,974
Plus:		
Impact of West Virginia Freedom Industries chemical spill	—	1,012
Estimated impact of weather (mid-point of range)	16,785	9,918
Adjusted Regulated Operating Revenues (b)	$ 2,588,882	$ 2,549,484
Adjusted Regulated Operation and Maintenance Efficiency Ratio (a)/(b)	35.9%	37.7%

* Calculation assumes purchased water revenues approximate purchased water expenses.

Consolidated Results of Operations and Changes from Prior Periods

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Favorable (Unfavorable) Change	2015	2014	Favorable (Unfavorable) Change
	(In thousands, except per share amounts)					
Operating revenues	$ 782,121	$ 754,778	$ 27,343	$ 1,480,199	$ 1,433,781	$ 46,418
Operating expenses						
Operation and maintenance	336,624	337,849	1,225	660,456	663,029	2,573
Depreciation and amortization	108,923	105,685	(3,238)	216,300	211,609	(4,691)
General taxes	60,222	56,802	(3,420)	123,918	117,469	(6,449)
Gain on asset dispositions and purchases	(1,209)	(345)	864	(2,337)	(555)	1,782
Total operating expenses, net	504,560	499,991	(4,569)	998,337	991,552	(6,785)
Operating income	277,561	254,787	22,774	481,862	442,229	39,633
Other income (expenses)						
Interest, net	(75,421)	(73,668)	(1,753)	(151,094)	(147,228)	(3,866)
Allowance for other funds used during construction	2,835	2,058	777	5,195	4,259	936
Allowance for borrowed funds used during construction	1,542	1,271	271	4,064	2,754	1,310
Amortization of debt expense	(1,878)	(1,629)	(249)	(3,642)	(3,302)	(340)
Other, net	(1,012)	(316)	(696)	744	(1,857)	2,601
Total other income (expenses)	(73,934)	(72,284)	(1,650)	(144,733)	(145,374)	641
Income from continuing operations before income taxes	203,627	182,503	21,124	337,129	296,855	40,274
Provision for income taxes	80,552	72,329	(8,223)	134,011	117,568	(16,443)
Income from continuing operations	123,075	110,174	12,901	203,118	179,287	23,831
Loss from discontinued operations, net of tax	—	(875)	875	—	(1,865)	1,865
Net income	$ 123,075	$ 109,299	$ 13,776	$ 203,118	$ 177,422	$ 25,696
Basic earnings per share: (a)						
Income from continuing operations	$ 0.69	$ 0.62		$ 1.13	$ 1.00	
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)		$ 0.00	$ (0.01)	
Net income	$ 0.69	$ 0.61		$ 1.13	$ 0.99	
Diluted earnings per share: (a)						
Income from continuing operations	$ 0.68	$ 0.61		$ 1.13	$ 1.00	
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)		$ 0.00	$ (0.01)	
Net income	$ 0.68	$ 0.61		$ 1.13	$ 0.99	
Average common shares outstanding during the period:						
Basic	179,564	178,863		179,511	178,702	
Diluted	180,371	179,693		180,348	179,512	

(a) Amounts may not sum due to rounding

The following is a discussion of the consolidated results of operations for the three and six months ended June 30, 2015 compared to the same periods in 2014:

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Operating revenues. Consolidated operating revenues for the quarter ended June 30, 2015 increased $27.3 million, or 3.6%, compared to the same quarter last year. Revenues in our Market-Based Operations segment rose $19.0 million, largely driven by incremental revenue from our military contracts due to increased construction type projects and the addition of two military bases in the second half of 2014 coupled with contract growth in our Homeowner Services Group (“HOS”). Revenues in our Regulated Businesses segment rose $8.7 million mainly attributable to rate increases, infrastructure charges and increased demand, partially offset by decreased surcharges and balancing accounts in 2015. For further information, see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated O&M decreased by $1.2 million, or 0.4%, compared to the same period in 2014. This decrease resulted from continued cost management; lower costs associated with the Freedom Industries chemical spill; a reduction in uncollectible expense; and reduced employee-related, condemnation and production costs. These decreases were partially offset by an increase of $15.3 million in O&M costs associated with our Market-Based Operations segment, principally due to increased activity under our military contracts, as noted in the operating revenue discussion above. For further information on the changes in our Regulated Businesses and Market-Based Operations segments’ O&M, see the respective “Operation and Maintenance” discussions within the “Segment Results” section below.

Depreciation and amortization. Depreciation and amortization expense increased by $3.2 million, or 3.1%, primarily as a result of additional utility plant placed in service.

General Taxes. General taxes increased $3.4 million, or 6.0%, primarily due higher property tax assessments for various subsidiaries in our Regulated Businesses segment.

Other income (expenses). Other expenses increased by $1.7 million, or 2.3%, compared to the same period in 2014. The increase is primarily due to an increase in interest expense, mainly as a result of a $500 million debt issuance in the third quarter of 2014.

Provision for income taxes. Our consolidated provision for income taxes increased $8.2 million, or 11.4%, to $80.6 million for the three months ended June 30, 2015, due to the increase in pre-tax income. The effective tax rate for both the three months ended June 30, 2015 and 2014 was 39.6%.

Loss from discontinued operations, net of tax. As previously noted, the financial results of our Terratec line of business previously reported in our Market-Based Operations segment were classified as discontinued operations for all periods presented. The disposition of Terratec was finalized in the fourth quarter of 2014. For the three months ended June 30, 2014, the loss from discontinued operations, net of tax, represents the operating results of Terratec for the period.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Operating revenues. Consolidated operating revenues for the six months ended June 30, 2015 increased $46.4 million, or 3.2%, compared to the same period last year. Revenues in our Market-Based Operations segment rose $30.6 million, largely driven by incremental revenue from our military contracts due to increased construction type projects and the addition of two military bases in the second half of 2014 coupled with contract growth in our HOS. Revenues in our Regulated Businesses segment rose $16.5 million mainly attributable to rate increases, infrastructure charges and increased demand, partially offset by decreased surcharges and balancing accounts in 2015. For further information, see the respective “Operating Revenues” discussions within the “Segment Results” section below.

Operation and maintenance. Consolidated O&M decreased by $2.6 million, or 0.4%, compared to the same period in 2014. This decrease was attributable to lower O&M costs in our Regulated Businesses segment of $25.3 million from continued cost management, lower production and condemnation costs, and authorized recovery of costs as a result of the finalization of our California general rate case in the first quarter of 2015. Also, contributing to lower costs in our Regulated Businesses was the inclusion in 2014 of costs associated with the Freedom Industries chemical spill of $9.8 million. These decreases were partially offset by an increase of $27.1 million in O&M costs in our Market-Based Operations segment, principally due to increased activity under our military contracts, as noted in the operating revenue discussion above. For further information on the changes in our Regulated Businesses and Market-Based Operations segments’ O&M, see the respective “Operation and Maintenance” discussions within the “Segment Results” section below.

Depreciation and amortization. Depreciation and amortization expense increased by $4.7 million, or 2.2%, primarily as a result of additional utility plant placed in service.

General Taxes. General taxes increased $6.4 million, or 5.5%, primarily due to a true-up of business and occupation taxes and higher property tax assessments for various subsidiaries in our Regulated Businesses segment.

Other income (expenses). Other expenses decreased by $0.6 million, or 0.4%, compared to the same period in 2014. The decrease is primarily due to authorization through the California rate case of a sharing mechanism between shareholders and customers for prior chemical contamination settlement proceeds of $4.1 million that were previously deferred and the recovery of the allowance for borrowed funds used during construction on the authorized business transformation costs. These decreases were offset by incremental interest expense principally due to the $500 million debt issuance in the third quarter of 2014.

Provision for income taxes. Our consolidated provision for income taxes increased $16.4 million, or 14.0%, to $134.0 million for the six months ended June 30, 2015, due to the increase in pre-tax income. The effective tax rates for the six months ended June 30, 2015 and 2014 were 39.8% and 39.6%, respectively.

Loss from discontinued operations, net of tax. As previously noted, the financial results of our Terratec line of business previously reported in our Market-Based Operations segment were classified as discontinued operations for all periods presented. The disposition of Terratec was finalized in the fourth quarter of 2014. For the six months ended June 30, 2014, the loss from discontinued operations, net of tax, represents the operating results of Terratec for the period.

Segment Results

We have two reportable segments: the Regulated Businesses and the Market-Based Operations Segments. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses Segment for the periods indicated:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
			(In thousands)			
Operating revenues	$ 686,811	$ 678,101	$ 8,710	$ 1,302,221	$ 1,285,745	$ 16,476
Operation and maintenance expense	270,279	284,121	(13,842)	536,609	561,948	(25,339)
Operating expenses, net	428,176	435,429	(7,253)	852,587	867,386	(14,799)
Income from continuing operations before income taxes	198,756	182,418	16,338	332,898	297,446	35,452

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business generally is subject to state economic regulation and our results of operations are impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate.

Operating revenues increased by $8.7 million, or 1.3%, for the three months ended June 30, 2015, as compared to the same period in 2014. This increase is principally due to incremental revenues of approximately $8.6 million, attributable to rate increases, including infrastructure charges, obtained through rate authorizations for a number of our operating companies. Additionally, operating revenues increased by $2.7 million, due to higher demand for the quarter ended June 30, 2015 compared to 2014. Partially offsetting these increases was a $3.6 million decrease in 2015 revenues attributable to the amortization of balancing accounts.

Operating revenues increased by $16.5 million, or 1.3%, for the six months ended June 30, 2015, as compared to the same period in 2014, primarily due to incremental revenues of approximately $17.5 million resulting from rate increases, including the infrastructure charges for a number of our operating companies. Partially offsetting these increases was a reduction in revenues from the amortization of balancing accounts in 2015 compared to 2014 of approximately $4.1 million.

The following table sets forth information regarding the Regulated Businesses’ revenues and billed water sales volume by customer class for the periods indicated:

	For the Three Months Ended June 30,							
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$ 373,166	$ 364,906	$ 8,260	2.3%	41,725	41,705	20	0.0%
Commercial	135,631	130,617	5,014	3.8%	19,727	19,092	635	3.3%
Industrial	32,021	31,419	602	1.9%	9,573	9,591	(18)	(0.2%)
Public and other	83,021	81,293	1,728	2.1%	12,889	12,510	379	3.0%
Other water revenues	8,710	7,822	888	11.4%	—	—	—	—
Billed water services	632,549	616,057	16,492	2.7%	83,914	82,898	1,016	1.2%
Unbilled water services	15,961	23,246	(7,285)	(31.3%)				
Total water service revenues	648,510	639,303	9,207	1.4%				
Wastewater service revenues	25,170	24,254	916	3.8%				
Other revenues	13,131	14,544	(1,413)	(9.7%)				
	$ 686,811	$ 678,101	$ 8,710	1.3%				

	For the Six Months Ended June 30,							
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$ 720,307	$ 718,430	$ 1,877	0.3%	79,379	81,642	(2,263)	(2.8%)
Commercial	258,229	260,436	(2,207)	(0.8%)	37,017	38,081	(1,064)	(2.8%)
Industrial	62,990	64,988	(1,998)	(3.1%)	18,570	19,406	(836)	(4.3%)
Public and other	159,150	165,259	(6,109)	(3.7%)	24,726	25,919	(1,193)	(4.6%)
Other water revenues	16,190	8,599	7,591	88.3%	—	—	—	—
Billed water services	1,216,866	1,217,712	(846)	(0.1%)	159,692	165,048	(5,356)	(3.2%)
Unbilled water services	12,155	(2,961)	15,116	510.5%				
Total water service revenues	1,229,021	1,214,751	14,270	1.2%				
Wastewater service revenues	47,988	46,662	1,326	2.8%				
Other revenues	25,212	24,332	880	3.6%				
	$ 1,302,221	$ 1,285,745	$ 16,476	1.3%				

Water Services – Consistent with the above discussion, water service operating revenues for the three months ended June 30, 2015 totaled $648.5 million, a $9.2 million increase, or 1.4%, over the same period of 2014. For the six months ended June 30, 2015, these revenues increased $14.3 million, or 1.2%, compared to the six months ended June 30, 2014. As described above, the increases for both the three and six months are primarily due to rate increases and infrastructure charges partially offset by a reduction in revenues attributable to the amortization of balancing accounts. Also, contributing to the incremental revenue for the three months ended June 30, 2015 compared to the same period last year was higher demand. Also, it should be noted that the mix between billed and unbilled water revenue for the six-month period ended June 30, 2015, compared to the same period in 2014 has changed. This change is principally the result of addressing the majority of delayed customer billings that existed at December 31, 2013, by billing those customers in the first quarter of 2014. The delayed billings resulted from the implementation of our Customer Information System (“CIS”) in 2013.

Wastewater services – Our subsidiaries provide wastewater services in eleven states. Revenues from these services increased $0.9 million, or 3.8%, and $1.3 million, or 2.8%, for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014 as the result of adding additional systems through acquisitions.

Other revenues – Other revenues, which include reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and other similar items, decreased $1.4 million, or 9.7%, for the three months ended June 30, 2015. This decrease is principally due to 2014 including $2.4 million in insurance proceeds for business interruption as a result of Hurricane Sandy. The six months ended June 30, 2015 increased $0.9 million, or 3.6%, due to incremental revenues for late payment fees and reconnection fees offset by the insurance proceeds mentioned above.

Operation and maintenance expense. Operation and maintenance expense decreased $13.8 million, or 4.9%, and $25.3 million, or 4.5%, for the three and six months ended June 30, 2015, respectively, compared to the same period in 2014.

The following table provides information regarding operation and maintenance expense for the three and six months ended June 30, 2015 and 2014, by major expense category:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs	$ 72,219	$ 74,141	$ (1,922)	(2.6%)	$ 136,004	$ 143,400	$ (7,396)	(5.2%)
Employee-related costs	106,277	107,599	(1,322)	(1.2%)	215,406	214,780	626	0.3%
Operating supplies and services	48,907	53,991	(5,084)	(9.4%)	95,180	110,256	(15,076)	(13.7%)
Maintenance materials and supplies	16,619	17,713	(1,094)	(6.2%)	36,050	38,160	(2,110)	(5.5%)
Customer billing and accounting	13,588	16,082	(2,494)	(15.5%)	28,715	29,287	(572)	(2.0%)
Other	12,669	14,595	(1,926)	(13.2%)	25,254	26,065	(811)	(3.1%)
Total	$ 270,279	$ 284,121	$ (13,842)	(4.9%)	$ 536,609	$ 561,948	$ (25,339)	(4.5%)

Production costs by major expense type were as follows:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Purchased Water	$ 30,694	$ 32,576	$ (1,882)	(5.8%)	$ 57,065	$ 59,658	$ (2,593)	(4.3%)
Fuel and Power	21,518	21,217	301	1.4%	42,712	45,135	(2,423)	(5.4%)
Chemicals	12,359	12,127	232	1.9%	21,956	22,795	(839)	(3.7%)
Waste Disposal	7,648	8,221	(573)	(7.0%)	14,271	15,812	(1,541)	(9.7%)
Total	$ 72,219	$ 74,141	$ (1,922)	(2.6%)	$ 136,004	$ 143,400	$ (7,396)	(5.2%)

Production costs decreased by $1.9 million, or 2.6%, and $7.4 million, or 5.2%, for the three and six months ended June 30, 2015, respectively, compared to the same periods in the prior year. The decrease for the second quarter was primarily due to a reduction in purchased water costs principally from lower usage in our California subsidiary. Purchased water and fuel and power costs in California are recorded in a balancing account and therefore do not impact earnings. The decrease for the six months ended June 30, 2015 was primarily due to decreases in purchased water as discussed above and fuel and power expenses principally attributable to incremental costs in 2014 due to harsher weather conditions in certain states and lower fuel and natural gas prices in 2015.

The following table provides information with respect to components of employee-related costs for the three and six months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Salaries and wages	$ 78,990	$ 82,568	$ (3,578)	(4.3%)	$ 159,480	$ 163,651	$ (4,171)	(2.5%)
Pensions	7,351	6,800	551	8.1%	15,066	13,620	1,446	10.6%
Group insurance	15,064	13,765	1,299	9.4%	30,805	28,130	2,675	9.5%
Other benefits	4,872	4,466	406	9.1%	10,055	9,379	676	7.2%
Total	$ 106,277	$ 107,599	$ (1,322)	(1.2%)	$ 215,406	$ 214,780	$ 626	0.3%

For the three and six months ended June 30, 2015 compared to the same periods in 2014 salaries and wages decreased as a result of the reduction in headcount and severance costs associated with the restructuring of certain organizational functions in 2014 as well as higher capitalization rates in 2015. Pension and postretirement benefit costs (which is included in group insurance expenses) increased principally due to the adoption of new mortality assumptions based on the Society of Actuaries RP 2014 mortality table and a decrease in the discount rate assumptions, which resulted in increased plan obligations.

Operating supplies and services include expenses for office operation, legal and professional services, transportation expenses, and information systems and other office equipment rental charges. Overall these costs decreased $5.1 million, or 9.4%, and $15.1 million, or 13.7%, for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The decrease was primarily due to incremental costs in 2014 associated with the Freedom Industries chemical spill in West Virginia and increased condemnation-related costs. Also, contributing to the decrease were lower fuel prices and leased vehicle costs for both the three and six months ended June 30, 2015. The decrease for the six months ended June 30, 2015 also included a $3.2 million adjustment in the first quarter of 2015 attributable to the recovery of previously expensed business transformation costs as a result of the finalization of our California rate case.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, decreased $1.1 million, or 6.2%, and $2.1 million, or 5.5%, for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The decrease for both the three and six months is primarily due to decreases in paving, backfilling and other repair costs. These costs were higher in the first quarter of 2014 as compared to the same period in 2015 due to higher than normal main breaks as a result of the abnormally severe winter weather conditions experienced in certain states.

Customer billing and accounting expenses, which include uncollectible accounts expense, postage and other customer related expenses, decreased by $2.5 million, or 15.5%, and $0.6 million, or 2.0%, for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014, and is principally attributable to improvements in our uncollectible expense.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. The decrease in these costs for both the three and six months ended June 30, 2015 compared to the prior year periods was primarily driven by 2014 claims costs associated with the Freedom Industries chemical spill in West Virginia. The premium adjustments are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature.

Operating expenses. The decrease in operating expenses for the three and six months ended June 30, 2015 is principally due to the decrease in operation and maintenance expense explained above offset by higher depreciation and amortization expense from additional utility plant placed in service and incremental general taxes mainly due to increased property and gross receipt taxes for certain of our operating companies.

Market-Based Operations

The following table provides financial information for our Market-Based Operations segment for the periods indicated:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
	(In thousands)					
Operating revenues	$ 99,976	$ 81,022	$ 18,954	$ 187,449	$ 156,877	$ 30,572
Operation and maintenance expense	80,587	65,314	15,273	154,120	127,059	27,061
Operating expenses, net	82,844	67,639	15,205	158,876	132,162	26,714
Income from continuing operations before income taxes	17,737	13,982	3,755	29,794	25,959	3,835

Operating revenues. Revenues for the three and six months ended June 30, 2015 increased $19.0 million and $30.6 million, respectively, compared to the same periods in 2014, as a result of incremental revenues in our Military Services Group (“Military”) and HOS lines of business partially offset by lower Contract Operations Group (“Contract Operations”) revenues. For the three and six months ended June 30, 2015, Military revenue increased $15.8 million and $24.5 million, respectively. These increases are primarily related to additional revenues from construction project activities associated with our military contracts and the addition of Hill Air Force Base and Picatinny Arsenal in the second half of 2014. HOS revenues increased $3.3 million and $7.1 million for the three and six months ended June 30, 2015, respectively. The incremental revenues in HOS are primarily the result of contract growth, mainly through our New York City contracts, as well as expansion into other geographic areas.

Operation and maintenance. Operation and maintenance expense increased $15.3 million, or 23.4%, and $27.1 million, or 21.3%, for the three and six months ended June 30, 2015, respectively.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs	$ 8,829	$ 8,593	$ 236	2.7%	$ 17,916	$ 17,861	$ 55	0.3%
Employee-related costs	17,162	15,356	1,806	11.8%	32,835	29,076	3,759	12.9%
Operating supplies and services	39,952	29,248	10,704	36.6%	72,977	54,682	18,295	33.5%
Maintenance materials and supplies	13,150	10,953	2,197	20.1%	27,437	22,310	5,127	23.0%
Other	1,494	1,164	330	28.4%	2,955	3,130	(175)	(5.6%)
Total	$ 80,587	$ 65,314	$ 15,273	23.4%	$ 154,120	$ 127,059	$ 27,061	21.3%

As noted in the table above, the primary factor contributing to the overall increase was operating supplies and services. This increase corresponds with the incremental revenues recognized in the Market-Based Operations segment and is mainly attributable to growth in construction project activities under our military contracts, as well as the addition of the two new military contracts discussed above. In addition, the increase in maintenance materials and supplies was primarily due to higher HOS claim costs, which are associated with new contracts as well as an increase in the frequency and severity of the claims.

Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” contained in Part II, Item 7 of our Form 10-K.

We rely on our revolving credit facility, the capital markets and our cash flows from operations to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and, to the extent necessary, our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through AWCC, our wholly owned financing subsidiary, issue commercial paper, which is supported by an unsecured revolving credit facility. Indebtedness under the credit facility is considered “debt” for purposes of a support agreement between American Water and AWCC, which serves as a functional equivalent of a guarantee by American Water of AWCC’s payment obligations under the credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and, from time to time, for direct borrowings.

On June 30, 2015, we, AWCC and the lenders amended and restated our outstanding credit agreement, dated as of October 29, 2012, associated with the revolving credit facility, to extend the expiration date of the facility from October 2018 to June 2020 and to allow AWCC to request to extend further the term of the credit facility for up to two one-year periods. An extension request must satisfy certain conditions and receive approval of the lenders, as set forth in the agreement. The financial covenants with respect to the credit facility remained unchanged.

As of June 30, 2015, AWCC had no outstanding borrowings and $40.4 million of outstanding letters of credit under the revolving credit facility. As of June 30, 2015, AWCC had $1.2 billion available under the credit facility to fulfill our short-term liquidity needs, to issue letters of credit and support $821.0 million in outstanding commercial paper. We can provide no assurances that the lenders will meet their existing commitments to AWCC under the credit facility or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

As noted in our Form 10-K, in February 2015, our Board of Directors authorized an anti-dilutive common stock repurchase program for the specific purpose of providing a vehicle to mitigate the dilutive effect of shares issued through our dividend reinvestment, employee stock purchase and executive compensation programs. This program allows us to purchase up to 10 million shares of our common stock over an unrestricted period of time. We may effect repurchases in the open market or through privately negotiated transactions. We commenced making purchases under this program in April 2015, and through June 30, 2015, we have repurchased an aggregate of 250 thousand shares.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from continuing operating activities for the six months ended June 30, 2015 were $418.0 million compared to $450.6 million for the six months ended June 30, 2014.

The following table provides a summary of the major items affecting our cash flows from operating activities for the six months ended June 30, 2015 and 2014:

	For the Six Months Ended June 30,	
	2015	2014
	(In thousands)	
Net income	$ 203,118	$ 177,422
Add (subtract):		
Non-cash activities (1)	368,586	371,045
Changes in working capital (2)	(128,245)	(76,419)
Pension and postretirement healthcare contributions	(25,464)	(21,433)
Net cash flows provided by operations	$ 417,995	$ 450,615

(1) Includes depreciation and amortization, deferred income taxes and amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, gain on asset dispositions and purchases, pension and non-pension postretirement benefits expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenues, taxes accrued (including income taxes), accounts payable and accrued expenses and other current assets and liabilities, net.

The decrease in cash flows from operating activities during the six months ended June 30, 2015, as compared to the same period in 2014, reflects changes in working capital and an increase in pension and postretirement benefit contributions of $4.0 million. The decrease in working capital for the six months ended June 30, 2015 compared to the same period in the prior year is the result of higher cash collections for our Regulated Businesses in the first quarter of 2014, as we delayed some 2013 billings to the first quarter of 2014 when we implemented our new customer information system in 2013, the timing of accounts payable and an increase in accrued dividends and insurance.

Due to the continued severe drought in California, in April 2015, the Governor of California mandated water usage restrictions intended to reduce the state's overall water usage by 25% compared with 2013 levels. As a result of our California subsidiary's WRAM, which has the effect of reducing the adverse financial impact on us of our California customers' conservation efforts, such restrictions should not have a significant impact on our result of operations. However, cash flows from operations could be affected as the surcharges or surcredits we recognize on these accounts are collected from or refunded to customers generally over periods ranging from twelve to thirty-six months. The impact of the WRAM on cash flows for the first six months of 2015 was approximately $10 million.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses segment.

Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities for the six months ended June 30, 2015 and 2014:

	For the Six Months Ended June 30,	
	2015	2014
	(In thousands)	
Net capital expenditures	$ (478,821)	$ (401,781)
Proceeds from sale of assets	4,780	665
Acquisitions and related costs	(41,244)	(2,869)
Other investing activities, net [1]	(51,890)	(34,189)
Net cash flows used in investing activities	$ (567,175)	$ (438,174)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds restricted.

The increase in capital expenditures is principally due to less harsh winter conditions in the first quarter of 2015 compared to the same period in 2014 in certain of our Regulated Businesses, which allowed us to increase our capital improvements during the six months ended June 30, 2015.

The increase in cash utilized for acquisitions during the first six months of 2015 compared to the same period in 2014 is principally due to the purchase of two regulated systems, the Borough of Haddonfield, New Jersey's water and wastewater systems and the City of Arnold, Missouri's wastewater system.

We are currently considering a plan to construct a new corporate headquarters to consolidate our support services and certain of our Market-Based Operations employees within a single location. We are considering several alternatives for the location of the new headquarters. The cost of construction, which would take several years to complete, is currently estimated to be up to $165 million, depending on the location selected and exclusive of any tax incentives that the Company may receive.

Cash Flows from Financing Activities

The following table provides information regarding cash flows provided by (used in) financing activities for the six months ended June 30, 2015 and 2014:

	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014
	(In thousands)	
Proceeds from long-term debt	$ 7,748	$ —
Repayments of long-term debt	(5,694)	(4,565)
Proceeds from short-term borrowings	371,023	72,131
Dividends paid	(116,649)	(105,390)
Other financing activities, net (1)	14,424	30,552
Net cash flows provided by (used in) financing activities	$ 270,852	$ (7,272)

(1) Includes proceeds from issuance of common stock under various employee stock plans and our dividend reinvestment plan, advances and contributions for construction, net of refunds, debt issuance costs, share repurchase and tax benefits realized from equity compensation.

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market and general economic conditions. In addition, new infrastructure may be financed with customer advances (net of refunds) and contributions in aid of construction.

Based on the liquidity and capital needs of American Water and our regulated subsidiaries, AWCC borrows funds on a short-term basis and through intercompany loans, provides the proceeds of those borrowings to the regulated subsidiaries and American Water. The regulated subsidiaries and American Water are obligated to pay to AWCC their respective portion of AWCC's debt service obligations. Because American Water borrowings are not a source of capital for the Company's regulated subsidiaries, the Company is not able to recover the interest charges on its debt through regulated water and wastewater rates.

On May 7, 2015, American Water and AWCC filed with the SEC a universal shelf registration statement that enables us to meet our capital needs through the offer and sale to the public from time to time of an unlimited amount of various types of securities, including American Water common stock, preferred stock and other equity securities and AWCC debt securities, all subject to market conditions and demand, general economic conditions, and as applicable, rating status. The shelf registration will expire in May 2018.

We intend to utilize commercial paper for short-term liquidity, as commercial paper borrowings have historically been a more flexible and lower cost option. However, we are able to utilize our credit facility to the extent necessary to complement our borrowings in the commercial paper market. In the event of disruptions in the money market sector of the debt capital markets or in response to economic conditions generally, borrowings under our revolving credit facility may be more efficient and a lower cost alternative to commercial paper.

The following long-term debt was issued during the first six months of 2015:

Company	Type	Rate	Maturity	Amount (In thousands)
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.00%	2022	$ 7,748

The following long-term debt was retired through sinking fund provisions or payment at maturity during the first six months of 2015:

Company	Type	Rate	Maturity	Amount (In thousands)
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	1.79%-2.90%	2021-2031	$ 807
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.30%	2015-2041	3,671
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments	12.23%	2026	16
Total retirements and redemptions				$ 5,694

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other transactions.

Credit Facilities and Short-Term Debt

Short-term debt, consisting of commercial paper, net of discount, amounted to $821.0 million at June 30, 2015.

The following table provides information as of June 30, 2015 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sub-limit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
	(In thousands)					
June 30, 2015	$ 1,250,000	$ 1,209,615	$ 150,000	$ 109,615	$ 820,982	$ —

The weighted-average interest rate on short-term borrowings for the three months ended June 30, 2015 and 2014 was approximately 0.27% and 0.29%, respectively, and 0.51% and 0.31% for the six months ended June 30, 2015 and 2014, respectively.

Capital Structure

The following table provides information regarding our capital structure for the periods presented:

	At June 30, 2015	At December 31, 2014
Total common stockholders' equity	44%	45%
Long-term debt and redeemable preferred stock at redemption value	48%	50%
Short-term debt and current portion of long-term debt	8%	5%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance with these covenants, such an event may create an event of default under the debt agreement and we, or our subsidiaries, may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements under debt agreements. We do not believe this event will materially impact us. Our long-term debt indentures also contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Our failure to comply with any of these covenants could accelerate repayment obligations.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. As of June 30, 2015, our ratio was 0.56 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by our securities ratings. We primarily access the debt capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

The following table shows the Company's securities ratings as of June 30, 2015:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A
Commercial paper	P2	A-1

On May 7, 2015, Standard & Poor's ("S&P") raised our corporate credit rating on AWCC and American Water from A- to A and our commercial paper rating from A-2 to A-1 on American Water and AWCC. S&P also confirmed its stable rating outlook.

On April 22, 2015, Moody's reaffirmed our Baa1 corporate credit rating for American Water and AWCC and AWCC's P2 commercial paper rating. At the same time, Moody's revised its rating outlook for American Water and AWCC to positive from stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of a downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if our debt is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to reference such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

Dividends

On June 1, 2015, we made a cash dividend payment of $0.34 per share to shareholders of record as of May 11, 2015.

On July 24, 2015, our board of directors declared a quarterly cash dividend payment of $0.34 per share payable on September 1, 2015 to shareholders of record as of August 10, 2015. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates," in our Form 10-K for a discussion of our critical accounting policies.

Recent Accounting Pronouncements

See Note 2: New Accounting Pronouncements to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes to our exposure to market risk since December 31, 2014. For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2015.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2015, our disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in our Form 10-K in Part I, Item 3, “Legal Proceedings,” and in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 in Part II, Item 1, “Legal Proceedings.”

Alternative Water Supply in Lieu of Carmel River Diversions

On March 18, 2015, the CPUC issued a decision approving, in part, the settlement agreement among California-American Water Company (“Cal Am”), the Monterey County Water Resource Agency (“MCWRA”) and the County of Monterey, by authorizing Cal Am’s recovery of $1.9 million of costs advanced to MCWRA, plus interest and fees under the reimbursement agreement and credit line agreement among the Marina Coast Water District (“MCWD”), MCWRA and Cal Am. These agreements, along with the water purchase agreement and other related ancillary agreements among MCWD, MCWRA and Cal Am, relate to the regional desalination project (“RDP”) involving the proposed construction of a desalination facility in the City of Marina. The CPUC denied without prejudice the additional recovery of approximately $765,000 because there was insufficient information for the CPUC to determine the reasonableness of such amount. Cal Am is permitted to file another application for recovery at a future date. On April 17, 2015, MCWD filed an application with the CPUC for a rehearing of the settlement approval.

On April 29, 2015, the San Francisco County Superior Court issued a final decision on the Complaint for Declaratory Relief filed by Cal Am against MCWRA and MCWD regarding the validity of the RDP agreements. In its final decision, the court ruled that four of the five RDP agreements are void. On the basis of previous rulings and dismissals, on June 1, 2015, the court entered its judgment declaring that four of the five RDP agreements are void and the credit line agreement is not void. On June 30, 2015, MCWD filed its notice of appeal of the court’s judgment. Cal Am and MCWRA filed post-judgment motions to recover trial costs and attorneys’ fees. On July 21, 2015, the court issued an order declaring Cal Am and MCWRA “are clearly the prevailing parties” in the Declaratory Relief action and awarded trial costs to Cal Am in the approximate amount of $56,000 (of approximately $99,000 sought). The motions to recover attorneys’ fees, seeking approximately $1.2 million, have not yet been heard by the court. In July 2015, Cal Am and MCWRA filed a Complaint (the “Cal Am July 2015 Complaint”) against MCWD and RMC Water and Environment, a private engineering consulting firm. Cal Am seeks to recover compensatory, consequential and incidental damages associated with the failure of the RDP in an amount to be proven at trial, which have been alleged in the Cal Am July 2015 Complaint to be in excess of $10.0 million, as well as punitive and treble damages, statutory penalties and attorneys’ fees.

On July 30, 2015, MCWD filed a Complaint (the “MCWD July 2015 Complaint”) in San Francisco County Superior Court against Cal Am, MCWRA and certain unidentified individual defendants. MCWD is seeking to recover compensatory damages associated with the failure of the RDP in an amount to be proven at trial, which have been alleged in the MCWD July 2015 Complaint to be at least $18.0 million, as well as exemplary damages and attorneys’ fees. Cal Am has not yet responded to the MCWD July 2015 Complaint, but it intends to contest vigorously the causes of action stated against it.

A one-day trial on MCWD’s December 11, 2014 Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief and the Ag Land Trust Petition was conducted on July 23, 2015 in Santa Cruz County Superior Court. The court denied both Petitions in their entirety. MCWD’s January 2015 Petition against the State Lands Commission and Cal Am remains active, and the deadline for Answers is August 21, 2015. The matter is scheduled for a one-day trial on November 20, 2015 in Santa Cruz County Superior Court.

In addition to the foregoing matters, Cal Am’s ability to move forward on the Monterey Peninsula Water Supply Project (the “Water Supply Project”) is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the settlement agreements relating to the Water Supply Project. In addition, there have been delays in the initial timetable for the preparation and certification by the CPUC of an environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. On July 9, 2015, the CPUC extended the environmental review of the Water Supply Project, and has not yet issued a revised procedural schedule with the final order date for the Water Supply Project. As a result, Cal Am estimates that the earliest date by which the Water Supply Project could be completed is sometime in 2018. We cannot assure that Cal Am’s application for the Water Supply Project will be approved or that the Water Supply Project will be completed on a timely basis, if ever.

Overflow of Diesel Fuel Tank

On March 2, 2015, Virginia-American Water Company (“VAWC”) - Hopewell District had an overflow of a diesel fuel day tank at its low lift pump station located along the Appomattox River in Hopewell, Virginia. Approximately 500 gallons of diesel fuel overflowed the day tank and onto the ground and a portion of the fuel ultimately entered the river. VAWC notified first responders and retained Clean Harbors, an emergency response company, to control the overflow area and perform clean-up at the site and in the river. On March 4, 2015, the U.S. Environmental Protection Agency (“EPA”) issued an Emergency Removal/Response Administrative Order directing the performance by VAWC of removal actions to mitigate the release. VAWC and Clean Harbors conducted removal efforts under the Order subject to oversight by the EPA and the Virginia Department of Environmental Quality (“VDEQ”), and on May 11, 2015, the EPA issued a notice of completion of the work required under the Order. VAWC also has received and responded to a request from the EPA for information regarding the overflow of the diesel fuel tank.

On April 1, 2015, VDEQ issued a Notice of Violation (“NOV”) alleging violations arising from this incident without providing a specific fine or penalty amount. The NOV also alleged violations relating to discharges of chlorinated water into the river that were identified during the course of the response to the Hopewell diesel overflow. VAWC has taken steps to prevent any potential for such discharges going forward. VAWC and VDEQ continue to discuss resolving the NOV through a consent order.

West Virginia Elk River Freedom Industries’ Chemical Spill

As previously disclosed, four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated class action complaint for those cases (“Federal action”) was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with crude 4-methylcyclohexane methanol (“MCHM”) and provided by West Virginia-American Water Company (“WVAWC”) in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The amended consolidated complaint names several individuals and corporate entities as defendants, including American Water Works Service Company, Inc. (“AWWSC”), WVAWC and the Company. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety of alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease.

On April 9, 2015, the court in the Federal action denied a motion to dismiss all claims against the Company for lack of personal jurisdiction. A separate motion to dismiss filed by AWWSC and WVAWC (and joined by the Company) asserting various legal defenses in the Federal action was resolved by the court on June 3, 2015. The court dismissed three causes of action but denied the motion to dismiss with respect to the remaining causes of actions and allowed the plaintiffs to continue to pursue the various claims for damages alleged in their amended consolidated complaint. On July 6, 2015, the plaintiffs filed a motion seeking certification of a class defined to include persons who resided in dwellings served by WVAWC’s Kanawha Valley Treatment Plant (“KVTP”) on January 9, 2014, persons who owned businesses served by the KVTP on January 9, 2014, and hourly employees who worked for such businesses. The plaintiffs seek a class-wide determination of liability against the American Water defendants, among others, and of damages to the three groups of plaintiffs as a result of the “Do Not Use” order issued after the Freedom Industries spill. This motion remains pending. On July 22, 2015, the court directed the parties to the Federal action to attend mediation scheduled for September 30, 2015. It is expected that the plaintiffs in the 53 state court cases, which were removed to federal court and are presently subject to stayed motions to remand to state court, will also participate in this mediation.

General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company’s financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company’s business, financial condition, results of operations, and cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2014, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
April 7 - April 30, 2015	77,400	$ 54.29	77,400	9,922,600
May 1 - May 29, 2015	85,291	53.43	85,291	9,837,309
June 1 - June 26, 2015	87,309	51.16	87,309	9,750,000
Total	250,000	52.93	250,000	

(a) The anti-dilutive common stock repurchase program was announced in February 2015 and allows the Company to purchase up to 10 million shares over an unrestricted period of time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

On August 3, 2015, the Board of Directors of the Company approved the amendment and restatement of the Company’s existing bylaws (the “Bylaws”) in their entirety. The following is a brief description of the amendments made to the Bylaws.

- Electronic Consents and Transmission of Notices. The Bylaws were amended to provide for the electronic conduct of meetings and electronic receipt of consents, and for the electronic transmission of notices.
- Director Actions. The vote required by the Board of Directors to take certain specified actions was amended throughout the Bylaws from a majority of directors present at the meeting to a majority of the total number of authorized directors, disregarding the existence of vacancies on the Board of Directors.
- Conduct of Stockholder Meetings. The Bylaws were amended to (A) permit the Board to appoint a presiding officer with respect to a stockholder meeting only if no other designated officer is present, (B) provide specifically for the role and duties of an inspector of election, and (C) include a non-exclusive list of the types of rules and procedures with respect to the holding and conduct of a stockholders meeting which may be adopted by the Board of Directors or the chairman of such meeting.
- Adjournment of Stockholder Meetings. The Bylaws were clarified to state that (A) adjournments of stockholder meetings may be taken regardless of whether a quorum is present, and (B) quorum is not broken by the subsequent withdrawal of a stockholder and a meeting may continue after such withdrawal even if less than a quorum remains.
- Special Meetings of Stockholders; Stockholder Proposals. The Bylaws include provisions permitting stockholders holding at least 15% of the shares of Company stock entitled to vote to call a special meeting, and requiring stockholders to provide advance notice of director proposals in connection with a stockholder meeting. These provisions were amended to update the information that is required to be provided by stockholders about the nature of any such proposal and relationships between the submitting stockholder and such proposal, as well to require information regarding the purpose of the requested special meeting. The Bylaws were also amended to clarify generally the procedures to be followed in connection with such meetings.
- Qualifications of Directors. The Bylaws include provisions requiring stockholders to provide advance notice of director nominations by a stockholder at a stockholder meeting. The Bylaws were amended to add specific eligibility requirements for such nominations by stockholders as well as to update the information and documentation that must be provided by nominating stockholders.
- Indemnification. The Bylaws were amended to clarify the terms for providing indemnification and the Company’s obligation to advance expenses to certain indemnified persons, and to provide for a dispute resolution mechanism.

- Bylaw Amendments. The Bylaws were amended to require that specific notice of proposed bylaw amendments be provided in connection with the proposed amendment of the Bylaws in the future by the Board of Directors or the stockholders.
- Broker Non-Votes. The Bylaws were amended to clarify that broker non-votes are not to be counted as votes cast at a stockholder meeting.
- Record Dates. The Bylaws were amended to include a provision governing the fixing in advance by the Board of Directors of record dates.
- Certificates and Fractional Shares. The Bylaws amended to clarify that the Company may require a bond in connection with the issuance of a new certificate in the event of alleged loss, theft or destruction of a certificate or the issuance of uncertificated shares in replacement thereof, and may issue fractional shares.
- Other Miscellaneous Changes. The amended Bylaws include certain changes and additions designed to clarify the Bylaws and make them consistent with the amendments made thereto as well as current Delaware law and good governance practices, and to provide additional general provisions and definitions for completeness.

The foregoing description of the amendment and restatement of the Bylaws is qualified in its entirety by reference to the text of the amended and restated Bylaws, which are filed herewith as Exhibit 3.2 and incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
*3.2	Amended and Restated Bylaws of American Water Works Company, Inc.
*10.1	Form of American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2015 Stock Unit Grant for Non-Employee Directors.
10.2	Amended and Restated Credit Agreement, dated as of June 30, 2015, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd. and PNC Bank, National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed July 7, 2015).
*10.3	Severance Agreement and General Release, dated January 6, 2015, by and between American Water Works Company, Inc. and Kellye L. Walker.
*10.4	Letter, dated February 17, 2015, by and between American Water Works Company, Inc. and Michael A. Sgro.
*10.5	Letter, dated December 12, 2014, by and between American Water Works Company, Inc. and Brenda J. Holdnak, Ph.D.
*10.6	Severance Agreement and General Release, dated December 22, 2014, by and between American Water Works Company, Inc. and Leonard Crane.
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*101	The following financial statements from American Water Works Company, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed with the Securities and Exchange Commission on August 5, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* Filed herewith.
** Furnished herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 5th day of August, 2015.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

/s/ Susan N. Story
Susan N. Story
President and Chief Executive Officer
Principal Executive Officer

/s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
Principal Financial Officer

/s/ Mark Chesla
Mark Chesla
Vice President and Controller
Principal Accounting Officer

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Section 2: EX-3.2 (EX-3.2)

Exhibit 3.2

AMENDED AND RESTATED BYLAWS OF

AMERICAN WATER WORKS COMPANY, INC.

a Delaware corporation

As adopted on and with effect from August 3, 2015

AMENDED AND RESTATED BYLAWS OF

AMERICAN WATER WORKS COMPANY, INC.
a Delaware corporation

As adopted on and with effect from August 3, 2015

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AMENDED AND RESTATED
BYLAWS OF

AMERICAN WATER WORKS COMPANY, INC.
a Delaware corporation

As adopted on and with effect from August 3, 2015

ARTICLE I

Offices

SECTION 1. Registered Office. The registered office of American Water Works Company, Inc. (the "Corporation") in the State of Delaware shall be located in the City of Wilmington.

SECTION 2. Principal Office. The principal office for the transaction of the business of the Corporation shall be at such place as the Board of Directors of the Corporation (the "Board of Directors" or the "Board") may determine. The Board is hereby granted full power and authority to change said principal office from one location to another.

SECTION 3. Other Offices. The Corporation may also have and maintain offices in such other places, within or without the State of Delaware, as the Board may, from time to time, determine or as the business of the Corporation may require.

ARTICLE II

Meetings of Stockholders

SECTION 1. Annual Meetings. The annual meeting of the stockholders for the election of directors and for such other business as may properly come before the meeting in accordance with all applicable requirements of these Bylaws and the General Corporation Law of the State of Delaware, as amended from time to time ("DGCL"), shall be held at such place (within or without the State of Delaware), date (which date shall not be a legal holiday in the place where the meeting is to be held) and hour as shall be designated by resolution of the Board adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time such resolution is presented to the Board for adoption). The Board may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as provided under the DGCL.

SECTION 2. Notice of Meetings. Each stockholder of record of each class of stock of the Corporation then outstanding and entitled to vote at any meeting of stockholders shall be given written notice of such meeting, which notice shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise expressly required by law, notice of each meeting of stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of such meeting to each stockholder entitled to vote at such meeting. An affidavit of the Secretary or an

Assistant Secretary of the Corporation or of the transfer agent or other agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. Notice given by electronic transmission shall only be valid if it complies with Section 232 of the DGCL.

SECTION 3. Notice of Business to be Brought Before a Meeting.

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, such business must be (i) specified in a notice of meeting given by or at the direction of the Board of Directors, (ii) if not specified in a notice of meeting (or any supplement thereto), otherwise brought before the meeting by the Board of Directors or the Chairman of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder present in person who (A) was a beneficial owner of shares of the Corporation both at the time of giving the notice provided for in this Section 3 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 3 in all applicable respects. For the avoidance of doubt, except for proposals properly made in accordance with Rule 14a-8 (and interpretations thereunder) promulgated under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "Exchange Act")), and included in the notice of meeting given by or at the direction of the Board of Directors, clause (iii) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders. For purposes of this Section 3, "present in person" shall mean that the stockholder proposing that the business be brought before the annual meeting of the Corporation, or, if the proposing stockholder is not an individual, a qualified representative of such proposing stockholder, appear at such annual meeting. For purposes of these Bylaws, a "qualified representative" of a stockholder shall be, (i) a if such stockholder is a general or limited partnership, any general partner or person who functions as a general partner of the general or limited partnership or who controls the general or limited partnership, (ii) if such stockholder is a corporation or a limited liability company, any officer or person who functions as an officer of the corporation or limited liability company or any officer, director, general partner or person who functions as an officer, director or general partner of any entity ultimately in control of the corporation or limited liability company or (iii) if such stockholder is a trust, any trustee of such trust. Stockholders seeking to nominate persons for election to the Board of Directors must comply with Section 4 and Section 5, and this Section 3 shall not be applicable to such nominations except as expressly provided in Section 4 and Section 5.

(b) Without qualification, for business to be properly brought before an annual meeting by a stockholder, the stockholder must (i) provide a Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the Corporation, and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 3. To be timely, a stockholder's notice must be delivered to, or mailed to and received at, the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the one-year anniversary of the preceding year's annual meeting; *provided, however*, that if the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered, or mailed and received, not later than the ninetieth (90th) day prior to such annual meeting or, if later, the tenth (10th) day following the day on which public disclosure of the date of such annual meeting was first made (a notice satisfying the time period requirements of this Section 3(b) is referred to as a "Timely Notice"). In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) To be in proper form for purposes of this Section 3, a stockholder's notice to the Secretary shall set forth:

(i) As to each Proposing Person (as defined below), (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the Corporation's books and records); (B) the class or series and number of shares of the Corporation that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Person, except that such Proposing Person shall in all events be deemed to beneficially own any shares of any class or series of the Corporation as to which such Proposing Person has a right to acquire beneficial ownership at any time in the future; (C) a representation that the stockholder intends to appear in person or by qualified representative at the meeting to propose the business described in the Timely Notice; and (D) a representation as to whether the stockholder intends or is part of a group which intends (x) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve the proposed business described in the Timely Notice and/or (y) otherwise to solicit proxies from stockholders in support of such proposed business (the disclosures to be made pursuant to the foregoing clauses (A), (B), (C) and (D) are referred to as "Stockholder Information");

(ii) As to each Proposing Person, (A) the full notional amount of any securities that, directly or indirectly, underlie any "derivative security" (as such term is defined in Rule 16a-1(c) under the Exchange Act) that constitutes a "call equivalent position" (as such term is defined in Rule 16a-1(b) under the Exchange Act) (a "Synthetic Equity Position") and that is, directly or indirectly, held or maintained by such Proposing Person with respect to any shares of any class or series of shares of the Corporation; *provided that*, for the purposes of the definition of "Synthetic Equity Position," the term "derivative security" shall also include any security or instrument that would not otherwise constitute a "derivative security" (as such term is defined in Rule 16a-1(c) under the Exchange Act) as a result of any feature that would make any conversion, exercise or similar right or privilege of such security or instrument becoming determinable only at some future date or upon the happening of a future occurrence, in which case the determination of the amount of securities into which such security or instrument would be convertible or exercisable shall be made assuming that such security or instrument is immediately convertible or exercisable at the time of such determination; and, *provided*, *further*, that any Proposing Person satisfying the requirements of Rule 13d-1(b)(1) under the Exchange Act (other than a Proposing Person that so satisfies Rule 13d-1(b)(1) under the Exchange Act solely by reason of Rule 13d-1(b)(1)(ii)(E)) shall not be deemed to hold or maintain the notional amount of any securities that underlie a Synthetic Equity Position held by such Proposing Person as a hedge with respect to a *bona fide* derivatives trade or position of such Proposing Person arising in the ordinary course of such Proposing Person's business as a derivatives dealer, (B) any rights to dividends on the shares of any class or series of shares of the Corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, (C) any material pending or threatened legal proceeding in which such Proposing Person is a party or material participant involving the Corporation or any of its officers or directors, or any affiliate of the Corporation, (D) any other material relationship between such Proposing Person, on the one hand, and the Corporation, any affiliate of the Corporation or any significant competitor of the Corporation, on the other hand, (E) any direct or indirect material interest in any material contract or agreement of such Proposing Person with the Corporation, any affiliate of the Corporation or any significant competitor of the Corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement) and (F) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act (the disclosures to be made pursuant to the foregoing clauses (A) through (F) are referred to as "Disclosable Interests"); *provided*, *however*, that Disclosable Interests shall not include any such disclosures with respect to the ordinary course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the stockholder directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner; and

(iii) As to each item of business that the stockholder proposes to bring before the annual meeting, (A) a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposed business (including the text of any resolutions proposed for consideration), and (C) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such stockholder, including without limitation any agreements that would be required to be disclosed pursuant to Item 5 or Item 6 of a Schedule 13D that would be filed pursuant to the Exchange Act (regardless of whether the requirement to file a Schedule 13D is applicable to the Proposing Person or other person or entity); and (D) any other information relating to such item of business that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act; *provided*, *however*, that the disclosures required by this paragraph (iii) shall not include any disclosures with respect to any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the stockholder directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner.

For purposes of this Section 3, the term "Proposing Person" shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if any, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, (iii) any participant (as defined in paragraphs (a)(ii)-(vi) of Instruction 3 to Item 4 of Schedule 14A, or any successor instructions) with such stockholder or beneficial owner in such solicitation of proxies in respect of any such proposed business, (iv) any "affiliate" of such stockholder (for purposes of these Bylaws, such term shall have the definition provided for in Rule 12b-2 under the Exchange Act) or beneficial owner; and (v) any person controlling, controlled by or under common control with any person referred to in clauses (i) and (ii) above.

(d) A Proposing Person shall update and supplement its notice to the Corporation of its intent to propose business at an annual meeting, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 3 shall be true and correct (i) as of the record date for the determination of persons entitled to receive notice of the meeting and (ii) the date that is five (5) business days prior to the meeting and, in the event of any adjournment or postponement thereof, five (5) business days prior to such adjourned or postponed meeting. In the case of an update and supplement pursuant to clause (i) of this Section, such update and supplement shall be received by the Secretary at the principal executive offices of the Corporation not later than eight (8) business days after the record date for the determination of persons entitled to receive notice of the meeting. In the case of an update and supplement pursuant to clause (ii) above, such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than two (2) business days prior to the date for the meeting, and, in the event of any adjournment or postponement thereof, two (2) business days prior to such adjourned or postponed meeting. For purposes of these Bylaws, the term "business day" shall mean any day that is not a Saturday or Sunday, a Federal or state legal holiday in the state of the Corporation's principal place of business, or a day on which banks in the city of the Corporation's principal place of business are required or permitted to close.

(e) Notwithstanding anything in these Bylaws to the contrary (other than the provisions of Section 3(g) hereof relating to any proposal made in accordance with Rule 14a-8 under the Exchange Act and included in the proxy statement), no business shall be conducted at an annual meeting that is not properly brought before the meeting in accordance with this Section 3. The presiding officer of the meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with this Section 3, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder takes action contrary to the representations made in the stockholder notice applicable to such business or if the stockholder notice applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading.

(f) Notwithstanding any notice of the annual meeting sent to stockholders on behalf of the Corporation, a stockholder must comply with this Section 3 to conduct business at any annual meeting. If the stockholder's proposed business is the same or relates to business brought by the Corporation and included in its annual meeting notice, the stockholder is nevertheless required to comply and give its own separate and timely written notice to the Secretary pursuant to this Section 3.

(g) This Section 3 is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders other than any proposal made in accordance with Rule 14a-8 under the Exchange Act and included in the Corporation's proxy statement. In addition to the requirements of this Section 3 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 3 shall be deemed to affect any rights of (1) a stockholder to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act or (2) the Corporation to omit a proposal from the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

(h) For purposes of these Bylaws, "public disclosure" shall mean disclosure (i) in a press release issued through a national news or wire service, (ii) in a document publicly filed by the Corporation with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13, 14 or 15(d) of the Exchange Act, or (iii) another method reasonably intended by the Corporation to achieve broad-based dissemination of the information contained therein.

SECTION 4. Notice of Nominations for Election to the Board of Directors.

(a) Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, including by any committee or persons authorized to do so by the Board of Directors or these Bylaws, or (ii) by a stockholder present in person (A) who was a beneficial owner of shares of the Corporation both at the time of giving the notice provided for in this Section 4 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with this Section 4 and Section 5 as to such notice and nomination. For purposes of this Section 4, "present in person" shall mean that the stockholder proposing that the business be brought before the meeting of the Corporation, or, if the proposing stockholder is not an individual, a qualified representative (as defined in Section 3(a) hereof) of such stockholder, appear at such meeting. The foregoing clause (ii) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting.

(b) Without qualification, for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting, the stockholder must (A) provide Timely Notice (as defined in Section 3) thereof in writing and in proper form to the Secretary of the Corporation, (B) provide the information, agreements and questionnaires with respect to such stockholder and its candidate for nomination as required to be set forth by this Section 4 and Section 5 and (C) provide any updates or supplements to such notice at the times and in the forms required by this Section 4 and Section 5.

(c) Without qualification, if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling a special meeting, then for a stockholder to make any nomination of a person or persons for election to the Board of Directors at a special meeting, the stockholder must (i) provide timely notice thereof in writing and in proper form to the Secretary of the Corporation at the principal executive offices of the

Corporation, (ii) provide the information with respect to such stockholder and its candidate for nomination as required by this Section 4 and Section 5 and (iii) provide any updates or supplements to such notice at the times and in the forms required by this Section 4. To be timely, a stockholder's notice for nominations to be made at a special meeting must be delivered to, or mailed and received at, the principal executive offices of the Corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the ninetieth (90th) day prior to such special meeting or, if later, the tenth (10th) day following the day on which public disclosure (as defined in Section 3(h)) of the date of such special meeting was first made.

(d) In no event shall any adjournment or postponement of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above.

(e) Notwithstanding any provision of this Section 4 to the contrary, in the event that the number of directors to be elected to the Board of Directors at the next annual meeting of stockholders is increased by virtue of an increase in the size of the Board of Directors and either all of the nominees for director at the next annual meeting of stockholders or the size of the increased Board of Directors is not publicly announced or disclosed by the Corporation at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder notice shall also be considered timely hereunder, but only with respect to nominees to stand for election at the next annual meeting as the result of any new positions created by such increase, if it is delivered to the Secretary at the principal place of business of the Corporation not later than the close of business on the tenth (10th) day following the first day on which all such nominees or the size of the increased Board shall have been publicly announced or disclosed by the Corporation.

(f) To be in proper form for purposes of this Section 4, a stockholder's notice to the Secretary shall set forth:

(i) As to each Nominating Person (as defined below), the Stockholder Information (as defined in Section 3(c)(i), except that for purposes of this Section 4 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 3(c)(i));

(ii) As to each Nominating Person, any Disclosable Interests (as defined in Section 3(c)(ii), except that for purposes of this Section 4 the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 3(c)(ii) and the disclosure with respect to the business to be brought before the meeting in Section 3(c) (ii) shall be made with respect to the election of directors at the meeting);

(iii) As to each candidate whom a Nominating Person proposes to nominate for election as a director, (A) all information with respect to such candidate for nomination that would be required to be set forth in a stockholder's notice pursuant to this Section 4 and Section 5 if such candidate for nomination were a Nominating Person, (B) all information relating to such candidate for nomination that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such candidate's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (C) a description of any direct or indirect material interest in any material contract or agreement between or among any Nominating Person, on the one hand, and each candidate for nomination or his or her respective affiliates or associates or any other participants in such solicitation, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the "registrant" for purposes of such rule and the candidate for nomination were a director or executive officer of such registrant (the disclosures to be made pursuant to the foregoing clauses (A) through (C) are referred to as "Nominee Information"), and (D) a completed and signed questionnaire, representation and agreement as provided in Section 5(a).

For purposes of this Section 4, the term "Nominating Person" shall mean: (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, (iii) any participant (as defined in paragraphs (a)(ii)-(vi) of Instruction 3 to Item 4 of Schedule 14A, or any successor instruction) with such stockholder or beneficial owner in any solicitation of proxies in respect of any such proposed nomination, (iv) any affiliate of such stockholder, and (v) any person controlling, controlled by or under common control with any person referred to in the preceding clauses (i) and (ii).

(g) A stockholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 4 and Section 5 shall be true and correct (i) as of the record date for the determination of persons entitled to receive notice of the meeting and (ii) the date that is five (5) business days prior to the meeting and, in the event of any adjournment or postponement thereof, five (5) business days prior to such adjourned or postponed meeting. In the case of an update and supplement pursuant to clause (i) of this Section, such update and supplement shall be received by the Secretary at the principal executive offices of the Corporation not later than eight (8) business days after the record date for the determination of persons entitled to receive notice of the meeting. In the case of an update and supplement pursuant to clause (ii) above, such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than two (2) business days prior to the date for the meeting, and, in the event of any adjournment or postponement thereof, two (2) business days prior to such adjourned or postponed meeting.

(h) In addition to the requirements of this Section 4 and Section 5 with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act and the DGCL with respect to any such nominations.

(i) Notwithstanding any notice of the annual meeting sent to stockholders on behalf of the Corporation, a stockholder must comply with this Section 4 and Section 5 to propose director nominations at any annual meeting.

SECTION 5. Additional Requirements for Valid Nomination of Candidates to Serve as Director and, if Elected, to be Seated as Directors.

(a) To be eligible to be a candidate for election as a director of the Corporation at an annual or special meeting, a candidate must be nominated in the manner prescribed in Section 4 and, in addition to any other requirements of these Bylaws:

(i) the candidate for nomination, whether nominated by the Board of Directors or by a stockholder, must have previously delivered (in accordance with the time period prescribed for delivery in a notice to such candidate given by or on behalf of the Board of Directors) to the Secretary at the principal executive offices of the Corporation: (A) a completed written questionnaire (in a form provided by the Corporation upon written request) with respect to the background, qualifications, stock ownership and independence of such proposed nominee, and (B) a written representation and agreement (in form provided by the Corporation upon written request) that such candidate for nomination (1) is not and, if elected as a director during his or her term of office, will not become a party to (x) any agreement, arrangement or understanding with, and has not given and will not give any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed therein to the Corporation, or (y) any Voting Commitment that could limit or interfere with such proposed nominee's ability to comply, if elected as a director of the Corporation, with such proposed nominee's fiduciary duties under applicable law, (2) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein; and (3) would be in compliance, if elected as a director of the corporation, and will comply with all applicable corporate governance, code of conduct, conflict of interest, confidentiality, stock ownership and trading and other policies and guidelines of the Corporation applicable to directors and in effect during such person's term in office as a director (and, if requested in writing by any candidate for nomination, the Secretary of the Corporation shall provide to such candidate for nomination all such policies and guidelines then in effect);

(ii) the candidate for nomination, whether nominated by the Board of Directors or by a stockholder: (A) shall not be a member of the board of directors of more than two (2) other public companies, and (B) shall not have been (1) convicted in a criminal proceeding, or the named subject in a criminal proceeding that is presently pending (other than traffic violations and other minor offenses), (2) the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any federal or state court or other authority, or any professional disciplinary body, which enjoined or otherwise limited him or her from engaging in any activity in connection with the purchase or sale of any security or commodity, or the right to be associated with persons engaged in any such activities, or finding that he or she had violated any federal or state securities laws or federal commodities laws, (3) the subject of any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member, (4) suspended or barred from (x) being associated as an officer or director of, or a person serving in a similar capacity with, an issuer, (y) being associated with a public accounting firm, or (z) appearing or practicing as an attorney before the SEC or any similar non-U.S. authority; or (5) engaged, and is not currently engaged, in any conduct for which disclosure thereof by the Corporation would be required pursuant to Regulation S-K assuming the candidate had already been elected as a member of the Board; and

(iii) at the request of the Board of Directors, such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed candidate for nomination to serve as an independent director or audit committee financial expert of the Corporation under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the Corporation.

(b) No candidate shall be eligible for nomination as a director of the Corporation unless such candidate for nomination and the Nominating Person seeking to place such candidate’s name in nomination has complied with Section 4 and this Section 5, as applicable. The presiding officer at the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with Section 4 and this Section 5, and if he or she should so determine, he or she shall so declare such determination to the meeting, the defective nomination shall be disregarded and any ballots cast for the candidate in question (but in the case of any form of ballot listing other qualified nominees, only the ballots cast for the nominee in question) shall be void and of no force or effect.

(c) Notwithstanding anything in these Bylaws to the contrary, no candidate for nomination shall be eligible to be seated as a director of the Corporation unless the candidate is qualified, nominated and elected in accordance with this Section 5 and Article III, Section 4.

SECTION 6. Special Meetings.

(a) Special meetings of the stockholders of the Corporation may only be called (i) at any time and for any purpose or purposes, by the Board pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption), or by the Chairman of the Board, or (ii) by the Secretary of the Corporation, upon the written request of the holders of record as of the record date fixed in accordance with Section 6(d) who hold, in the aggregate, at least fifteen percent (15%) of the voting power of the outstanding shares of the Corporation (the “Requisite Percentage”) at the time such request is submitted by the holders of such Requisite Percentage, subject to and in accordance with this Section 6. The notice of a special meeting shall state the purpose or purposes of the special meeting, and the business to be conducted at the special meeting shall be limited to the purpose or purposes stated in the notice. Except in accordance with this Section 6, stockholders shall not be permitted to propose business to be brought before a special meeting of the stockholders. Stockholders who nominate persons for election to the Board of Directors at a special meeting must also comply with the requirements set forth in Section 4 and Section 5.

(b) No stockholder may request that the Secretary of the Corporation call a special meeting of the stockholders pursuant to Section 6(a) (a "Stockholder Requested Special Meeting") unless a stockholder of record has first submitted a request in writing that the Board of Directors fix a record date (a "Request Record Date") for the purpose of determining the stockholders entitled to request that the Secretary of the Corporation call a Stockholder Requested Special Meeting, which request shall be in proper form and delivered to, or mailed and received by, the Secretary of the Corporation at the principal executive offices of the Corporation.

(c) To be in proper form for purposes of this Section 6, a request by a stockholder for the Board of Directors to fix a Request Record Date shall set forth:

(i) As to each Requesting Person (as defined below), (A) the Stockholder Information (as defined in Section 3(c)(i), except that for purposes of this Section 6 the term "Requesting Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 3(c)(i)); and (B) a representation that such Requesting Person intends to hold the shares of the Corporation described in the Stockholder Information through the date of the Stockholder Requested Special Meeting;

(ii) As to each Requesting Person, any Disclosable Interests (as defined in Section 3(c)(ii), except that for purposes of this Section 6 the term "Requesting Person" shall be substituted for the term "Proposing Person" in all places it appears in Section 3(c)(ii) and the disclosure in clause (F) of Section 3(c)(ii) shall be made with respect to the business proposed to be conducted at the special meeting or the proposed election of directors at the special meeting, as the case may be);

(iii) As to the purpose or purposes of the Stockholder Requested Special Meeting, (A) a reasonably brief description of (1) the specific purpose or purposes of the Stockholder Requested Special Meeting, (2) the matter(s) proposed to be acted on at the Stockholder Requested Special Meeting, and (3) the reasons for conducting such business at the Stockholder Requested Special Meeting, (B) a reasonably detailed description of any material interest in such matter of each Requesting Person, and (C) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Requesting Persons or (y) between or among any Requesting Person and any other person or entity (including their names) in connection with the request for the Stockholder Requested Special Meeting or the business proposed to be acted on at the Stockholder Requested Special Meeting; and

(iv) If directors are proposed to be elected at the Stockholder Requested Special Meeting, the Nominee Information for each person whom a Requesting Person expects to nominate for election as a director at the special meeting.

For purposes of this Section 6(c), the term "Requesting Person" shall mean (i) the stockholder making the request to fix a Request Record Date for the purpose of determining the stockholders entitled to request that the Secretary call a Stockholder Requested Special Meeting, and (ii) the beneficial owner or beneficial owners, if different, on whose behalf such request is made.

(d) Within ten (10) days after receipt of a request to fix a Request Record Date in proper form and otherwise in compliance with this Section 6 from any stockholder of record, the Board of Directors may adopt a resolution fixing a Request Record Date for the purpose of determining the stockholders entitled to request that the Secretary of the Corporation call a Stockholder Requested Special Meeting, which date shall not precede the date upon which the resolution fixing the Request Record Date is adopted by the Board of Directors. If no resolution fixing a Request Record Date has been adopted by the Board of Directors within the ten (10) day period after the date on which such a request to fix a Request Record Date was received, the Request Record Date in respect thereof shall be deemed to be the twentieth (20th) day after the date on which such a request is received. Notwithstanding anything in this Section 6 to the contrary, no Request Record Date shall be fixed if the Board of Directors determines that the written request or requests to call a Stockholder Requested Special Meeting (each, a "Special Meeting Request" and collectively, the "Special Meeting Requests"), that would otherwise be submitted following such Request Record Date could not comply with the requirements set forth in Section 6(g).

(e) In order for a Stockholder Requested Special Meeting to be called, one or more Special Meeting Requests, in the form required by this Section 6, must be signed by stockholders as who, as of the Request Record Date, hold of record or beneficially, in the aggregate, more than the Requisite Percentage and must be timely delivered to the Secretary of the Corporation at the principal executive offices of the Corporation. To be timely, a Special Meeting Request must be delivered to the principal executive offices of the Corporation not later than the sixtieth (60th) day following the Request Record Date. In determining whether a Stockholder Requested Special Meeting has been properly requested, multiple Special Meeting Requests delivered to the Secretary will be considered together only if (i) each Special Meeting Request identifies the same purpose or purposes of the Stockholder Requested Special Meeting and the same matters proposed to be acted on at such meeting (in each case as determined in good faith by the Board), and (ii) such Special Meeting Requests have been dated and delivered to the Secretary within sixty (60) days of the earliest dated Special Meeting Request.

(f) To be in proper form for purposes of this Section 6, a Special Meeting Request must include and set forth (a) a reasonably brief statement of (i) the specific purpose or purposes of the stockholder requested special meeting, (ii) the matter(s) proposed to be acted on at the Stockholder Requested Special Meeting, and (iii) the reasons for conducting such business at the Stockholder Requested Special Meeting, and (b) the text of the proposed business (including the text of any resolutions proposed for consideration), if applicable, and (c) with respect to any stockholder or stockholders submitting a Special Meeting Request (except for any stockholder that has provided such request in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A) (a "Solicited Stockholder") the information required to be provided pursuant to this Section 6 of a Requesting Person. A stockholder may revoke a Special Meeting Request by written revocation delivered to the Secretary at any time prior to the Stockholder Requested Special Meeting. If any such revocation(s) are received by the Secretary after the Secretary's receipt of Special Meeting Requests from the Requisite Percentage of stockholders, and as a result of such revocation(s) there no longer are unrevoked demands from the Requisite Percentage of stockholders to call a Stockholder Requested Special Meeting, the Board of

Directors shall have the discretion to determine whether or not to proceed with the Stockholder Requested Special Meeting.

(g) The Secretary shall not accept, and shall consider ineffective, a Special Meeting Request if (i) such Special Meeting Request does not comply with this Section 6 or relates to an item of business to be transacted at the Stockholder Requested Special Meeting that is not a proper subject for stockholder action under applicable law; (ii) the Special Meeting Request is received by the Corporation during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting of stockholders and ending on the date of the final adjournment of the next annual meeting of stockholders; (iii) an identical or substantially similar item (a "Similar Item") to that included in the Special Meeting Request was presented at any meeting of stockholders held within one year prior to receipt by the Corporation of such Special Meeting Request (it being understood that the election of directors at the preceding annual meeting of stockholders shall be deemed not to constitute a Similar Item in respect of a proposal to remove one or more directors or the entire Board at a Stockholder Requested Special Meeting); (iv) the Board calls an annual or special meeting of stockholders (in lieu of calling the Stockholder Requested Special Meeting) in accordance with Section 6(i); (v) a Similar Item is already included in the Corporation's notice as an item of business to be brought before a meeting of stockholders that has been called but not yet held; or (vi) such Special Meeting Request was made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law.

(h) Business transacted at any Stockholder Requested Special Meeting shall be limited to the purpose stated in the valid Special Meeting Request; provided, however, that nothing herein shall prohibit the Board from submitting matters to the stockholders at any Stockholder Requested Special Meeting. If none of the stockholders who submitted and signed the Special Meeting Request (but excluding any Solicited Stockholder) appears at or sends a qualified representative to the Stockholder Requested Special Meeting to present the matters to be presented for consideration that were specified in the Stockholder Meeting Request, the Corporation need not present such matters for a vote at such meeting.

(i) Any special meeting of stockholders, including any Stockholder Requested Special Meeting, shall be held at such date and time as may be fixed by the Board in accordance with these Bylaws and in compliance with applicable law; provided that a Stockholder Requested Special Meeting shall be held within ninety (90) days after the Corporation receives one or more valid Special Meeting Requests in compliance with this Section 6 from stockholders having beneficial ownership of at least the Requisite Percentage; provided, further, that the Board shall have the discretion to call an annual or special meeting of stockholders (in lieu of calling the Stockholder Requested Special Meeting) in accordance with Section 6(j) or cancel any Stockholder Requested Special Meeting that has been called but not yet held for any of the reasons set forth in the foregoing provisions of this Section 6.

(j) If a Special Meeting Request is made that complies with this Section 6, the Board may (in lieu of calling the Stockholder Requested Special Meeting) present a Similar Item for stockholder approval at any other meeting of stockholders that is held within ninety (90) days after the Corporation receives such Special Meeting Request.

(k) In connection with a Stockholder Requested Special Meeting called in accordance with this Section 6, the stockholder or stockholders (except for any Solicited Stockholder) who requested that the Board of Directors fix a record date for notice and voting for the special meeting in accordance with this Section 6 or who signed and delivered a Special Meeting Request to the Secretary shall further update and supplement the information previously provided to the Corporation in connection with such requests, if necessary, so that the information provided or required to be provided in such requests pursuant to this Section 6 shall be true and correct (i) as of the record date for the determination of persons entitled to receive notice of the special meeting and (ii) the date that is five (5) business days prior to the special meeting and, in the event of any adjournment or postponement thereof, five (5) business days prior to such adjourned or postponed special meeting. In the case of an update and supplement pursuant to clause (i) of this Section, such update and supplement shall be received by the Secretary at the principal executive offices of the Corporation not later than eight (8) business days after the record date for the determination of persons entitled to receive notice of the special meeting. In the case of an update and supplement pursuant to clause (ii) above, such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than two (2) business days prior to the date for the special meeting, and, in the event of any adjournment or postponement thereof, two (2) business days prior to such adjourned or postponed special meeting.

(l) Notwithstanding anything in these Bylaws to the contrary, the Secretary shall not be required to call a Stockholder Requested Special Meeting pursuant to this Section 6 except in accordance with this Section 6. If the Board of Directors shall determine that any request to fix a record date for notice and voting for the special meeting or Special Meeting Request was not properly made in accordance with this Section 6, or shall determine that the stockholder or stockholders requesting that the Board of Directors fix such record date or submitting a Special Meeting Request have not otherwise complied with this Section 6, then the Board of Directors shall not be required to fix such record date or to call and hold the Stockholder Requested Special Meeting. In addition to the requirements of this Section 6, each Requesting Person shall comply with all requirements of applicable law, including all requirements of the Exchange Act, with respect to (i) any request to fix a record date for notice and voting for the Stockholder Requested Special Meeting, (ii) any Special Meeting Request or (iii) a Stockholder Requested Special Meeting.

(m) After receipt of Special Meeting Requests in proper form and in accordance with this Section 6 from a stockholder or stockholders holding the Requisite Percentage, the Board of Directors shall duly call, and determine the place, date and time of, a Stockholder Requested Special Meeting for the purpose or purposes and to conduct the business specified in the Special Meeting Requests received by the Corporation; provided that the Stockholder Requested Special Meeting shall be held within ninety (90) days after the Corporation receives one or more valid Special Meeting Requests in compliance with this Section 6 from stockholders holding at least the Requisite Percentage; provided, further, that the Board shall have the discretion to call an annual or special meeting of stockholders (in lieu of calling the Stockholder Requested Special Meeting) in accordance with Section 6(g) or cancel any Stockholder Requested Special Meeting that has been called but not yet held for any of the reasons set forth in the foregoing provisions of this Section 6. The record date for notice and voting for such a Stockholder Requested Special Meeting shall be fixed in accordance with

Article XI, Section 6 of these Bylaws. The Board of Directors shall provide written notice of such Stockholder Requested Special Meeting in accordance with Article II, Section 2 of these Bylaws.

SECTION 7. Quorum. Except as otherwise expressly required by law, by the Corporation's Restated Certificate of Incorporation or these Bylaws, the presence, in person, by remote communication, if applicable, or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business at any meeting of the stockholders of the Corporation or any adjournment thereof. The stockholders present at a duly called or convened meeting at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. In the absence of a quorum at any such meeting or any adjournment or adjournments thereof, a majority in voting interest of those present in person or by proxy and entitled to vote thereat, or any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting until stockholders holding the amount of stock requisite for a quorum are present in person or by proxy.

SECTION 8. Adjourned Meeting; Notice. After the meeting has been duly called to order, the presiding officer of the meeting may adjourn any meeting of stockholders, annual or special, from time to time, to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. When a meeting is adjourned to another time or place, unless these Bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL and Article XI, Section 7 of these Bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

SECTION 9. Conduct of Meetings.

(a) Officers of the Meeting. The Chairman of the Board, or in the absence of the Chairman, the President, or in their absence, the Vice Chairman, or if no such officer is present, a director designated by the Board, shall call meetings of the stockholders to order and shall act as chairman of the meeting. The Secretary, or in the absence of the Secretary, an Assistant Secretary, shall act as secretary of the meeting of the stockholders, but in the absence of the Secretary and Assistant Secretary at a meeting of the stockholders the chairman of the meeting may appoint any person to act as secretary of the meeting.

(b) Order of Business. The chairman of the meeting shall have the right to determine the order of business at the meeting.

(c) Meeting Protocol. To the maximum extent permitted by applicable law, the Board shall be entitled to adopt, or in absence of the Board doing so, the chairman of the meeting shall be entitled to prescribe, such rules or regulations for the conduct of meetings of stockholders as it, he or she shall deem necessary, appropriate or convenient. Such rules, regulations and procedures, whether adopted by the Board or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) establishing an agenda for the meeting and the order for the consideration of the items of business on such agenda; (ii) restricting admission to the time set for the commencement of the meeting; (iii) limiting attendance at the meeting to stockholders of record of the Corporation entitled to vote at the meeting, their duly authorized proxies or other such persons as the chairman of the meeting may determine; (iv) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies or other such persons as the chairman of the meeting may determine to recognize and, as a condition to recognizing any such participant, requiring such participant to provide the chairman of the meeting with evidence of his or her name and affiliation, whether he or she is a stockholder or a proxy for a stockholder, and the class and series and number of shares of each class and series of capital stock of the Corporation which are owned beneficially and/or of record by such stockholder; (v) limiting the time allotted to questions or comments by participants; (vi) taking such actions as are necessary or appropriate to maintain order, decorum, safety and security at the meeting; (vii) removing any stockholder who refuses to comply with meeting procedures, rules or guidelines as established by the chairman of the meeting; (viii) complying with any state and local laws and regulations concerning safety and security; and (ix) taking such other action deemed necessary, appropriate or convenient, in the sole discretion of the chairman of the meeting, for the proper conduct of the meeting. Unless otherwise determined by the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

SECTION 10. Inspectors. The Board may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting may, or if inspectors shall not have been appointed, the chairman of the meeting shall, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each, (ii) ascertain the number of shares represented at the meeting, (iii) ascertain the existence of a quorum, (iv) ascertain the validity and effect of proxies, (v) count and tabulate all votes, ballots or consents, (vi) determine and retain for a reasonable period a record of the disposition of all challenges made to any determination made by the inspectors, (vii) certify the determination of the number of shares represented at the meeting and their count of all votes and ballots, and (viii) do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors. In determining the validity and counting of all proxies and ballots, the inspectors shall act in accordance with applicable law.

SECTION 11. Voting. Unless otherwise provided in the Restated Certificate of Incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder. All voting, including on the election of directors but excepting where otherwise required by applicable law or the Restated Certificate of Incorporation, may take place via a voice vote. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his or her discretion, may require that any votes cast at a meeting of stockholders shall be cast by written ballot. When a quorum is present, except as otherwise provided by statute, by applicable stock exchange rules, by the Restated Certificate of Incorporation or these Bylaws, in all matters other than the election of directors, the affirmative vote of the majority of shares present in person, by remote communication, if applicable, or represented by proxy at the meeting and entitled to vote generally on the subject matter shall be the act of the stockholders. For the purposes of this Section 11, Broker Non-Votes represented at the meeting but not permitted to vote on a particular matter shall not be counted, with respect to the vote on such matter, in the number of (a) votes cast, (b) votes cast affirmatively, or (c) votes cast negatively.

SECTION 12. Proxies. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL. A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the person.

SECTION 13. Lists of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, provided, however, if the record date for determining the stockholders entitled to vote is less than ten (10) days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth (10th) day before the meeting date. The stockholder list shall be arranged in alphabetical order and show the address of each stockholder and the number of shares registered in the name of each stockholder. The Corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a physical location, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communications, then the list shall be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this Section 13 or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

SECTION 14. Postponement and Cancellation of Meetings. Any previously scheduled annual or special meeting of the stockholders may be postponed, and any previously scheduled annual or special meeting of the stockholders called by the Board may be canceled, by resolution of the Board upon public notice given prior to the time previously scheduled for such meeting of stockholders.

ARTICLE III

Board of Directors

SECTION 1. General Powers. The property, business and affairs of the Corporation shall be managed by or under the direction of the Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Restated Certificate of Incorporation directed or required to be exercised or done by the stockholders.

SECTION 2. Number of Directors. The number of directors which shall constitute the whole Board shall be fixed from time to time by resolution of the Board adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time such resolution is presented to the Board for adoption). The number of directors may be decreased at any time and from time to time by a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more directors. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

SECTION 3. Term. The entire Board shall stand for election or re-election by the stockholders at each annual meeting, and each director shall be elected to serve until his or her successor shall be elected and duly qualified or until his or her earlier death, resignation or removal in the manner as herein provided.

SECTION 4. Qualifications. In addition to the requirements set forth in Article II, Section 5 regarding the eligibility of candidates for election as a director of the Corporation, each director shall be at least 21 years of age. Directors need not be stockholders or citizens or residents of the United States of America.

SECTION 5. Majority Voting in the Election of Directors.

(a) Except as provided in Section 8 of this Article III, each director shall be elected by the vote of the majority of the votes cast with respect to the director at any meeting for the election of directors at which a quorum is present (an "Election Meeting"), provided that if as of a date that is fourteen (14) days in advance of the date the Corporation files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission the number of nominees exceeds the number of directors to be elected at such meeting (a "Contested Election"), each of the directors to be elected at the Election Meeting shall be elected by the affirmative vote of a plurality of the votes cast by the shares represented in person or by proxy at any such meeting and entitled to vote at such meeting with respect to the election of directors. For purposes of this Section 5, a “majority of the votes cast” means that the number of votes cast “for” a candidate for director must exceed the number of votes cast “against” that candidate for director (with “abstentions” and “broker non-votes” not counted as votes cast as either “for” or “against” such director’s election). In the event an Election Meeting involves the election of directors by separate votes by class or classes or series, the determination as to whether an election constitutes a Contested Election shall be made on a class by class or series by series basis, as applicable.

(b) The Nominating/Corporate Governance Committee has established procedures under which, in an uncontested election of directors, if any incumbent director nominated for re-election does not receive the vote of at least the majority of the votes cast at any meeting for the election of directors at which a quorum is present, such director will promptly tender his or her resignation to the Board. The Nominating/Corporate Governance Committee will make a recommendation to the Board on whether to accept or reject such tendered resignation, or whether other action should be taken. The Board will act on the tendered resignation, taking into account the Nominating/Corporate Governance Committee’s recommendation, and publicly disclose (by a press release, a filing with the SEC or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within ninety (90) days from the date of the certification of the election results. The Nominating/Corporate Governance Committee in making its recommendation, and the Board in making its decision, may each consider any factors or other information that it considers appropriate and relevant. The director who tenders his or her resignation will not participate in the recommendation of the Nominating/Corporate Governance Committee or the decision of the Board with respect to his or her resignation. If a director’s resignation is not accepted by the Board, such director will continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier resignation or removal. If a director’s resignation is accepted by the Board, then the Board, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of Section 8 below or may decrease the size of the Board of Directors pursuant to the provisions of Section 2 above.

SECTION 6. Resignations.

(a) Any director may resign at any time upon notice given in writing or by electronic transmission to the Chairman of the Board, the President or the Secretary; *provided*, *however*, that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the director. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. Acceptance of such resignation shall not be necessary to make it effective. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the Restated Certificate of Incorporation or these Bylaws, when one or more directors resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

SECTION 7. Removal of Directors. Any director or the entire Board may be removed, with or without cause, at any time upon the affirmative vote of holders of a majority of the shares then entitled to vote at an election of directors.

SECTION 8. Vacancies. Vacancies in the Board and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director or by the stockholders of the Corporation at the next annual meeting or any special meeting called for such purpose. Each director so chosen shall hold office until his or her successor shall be elected and shall qualify or until his or her earlier death, resignation or removal in the manner as herein provided.

SECTION 9. Place of Meetings. The Board may hold its meetings at such place or places within or without the State of Delaware as the Board may from time to time determine or as shall be designated in the respective notices or waivers of notice thereof.

SECTION 10. Annual and Regular Meetings. The annual meeting of the Board for the purpose of electing officers and for the transaction of such other business as may come before the meeting shall be held as soon as possible following adjournment of the annual meeting of the stockholders at the place of such annual meeting of the stockholders. Notice of such annual meeting of the Board need not be given. The Board from time to time may by resolution provide for the holding of regular meetings and fix the place (which may be within or without the State of Delaware), date and time of such meetings. Notice of regular meetings need not be given; provided, however, that if the Board shall fix or change the time or place of any regular meeting, notice of such action shall be mailed promptly, or given by telephone (including by a voice or text messaging system), facsimile or electronic mail to each director who shall not have been present at the meeting at which such action was taken, directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the Corporation's records, or shall be delivered to him or her personally.

SECTION 11. Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman of the Board, the President or at least two of the directors, at such place, date and time as may be specified in the respective notices or waivers of notice of such meetings. Special meetings of the Board may be called on at least twenty-four (24) hours' notice to each director if notice is given to each director personally or by telephone (including by a voice or text messaging system), facsimile or electronic mail, or on three (3) days' notice from the official date of deposit if notice is sent by internationally recognized courier to each director, directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the Corporation's records. Such notice need not state the purpose of, nor the business to be transacted at, that meeting, except as may otherwise be required by these Bylaws or applicable law. Notice need not be given to a director present at a meeting. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting in writing either before or after that meeting.

SECTION 12. Quorum and Manner of Acting. Except as provided by law, the Restated Certificate of Incorporation or these Bylaws, a majority of the total number of directors then in office shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting. The affirmative vote of a majority of those directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or act of the Board, unless a different vote is required by applicable law, the Restated Certificate of Incorporation or these Bylaws. In the absence of a quorum for any such meeting, a majority of the directors present thereat may adjourn such meeting from time to time until a quorum shall be present thereat. Notice of any adjourned meeting need not be given.

SECTION 13. Organization. The Board shall from time to time, but in no event less frequently than annually, elect a Chairman of the Board from among the directors. The Chairman of the Board may be, but is not required to be, an officer or employee of the Corporation. Meetings of the Board shall be presided over by the Chairman of the Board, or such other person as the Board may determine. The Secretary shall act as secretary of the meeting, and in his or her absence such other person as the person presiding over the meeting may appoint.

SECTION 14. Action Without a Meeting. Unless otherwise restricted by the Restated Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or any committee thereof, as the case may be, consent thereto in writing, or by electronic transmission, and the writing or writings or electronic transmissions are filed with the minutes of proceedings of the Board of Directors or committee thereof, as the case may be.

SECTION 15. Meetings by Electronic Communications Equipment. Any one or more members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or such committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

SECTION 16. Compensation. Each director, in consideration of his or her serving as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at meetings of the Board or of any committee, or both, as the Board shall from time to time determine. The Board may likewise provide that the Corporation shall reimburse each director or member of a committee for any expenses incurred by him or her on account of his or her attendance at any such meeting. Unless otherwise determined by the Board of Directors, a director who is an employee of the Corporation shall not receive any compensation for service on the Board of Directors, but shall be reimbursed for expenses of attendance at meetings in accordance with the Corporation's applicable policies and procedures for such reimbursement. Nothing contained in this Section shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

Committees

SECTION 1. Committees. The Board shall, by resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time such resolution is presented to the Board for adoption), designate a compensation committee, a nominating/corporate governance committee, an audit committee, and, if so desired from time to time, other committees to serve at the pleasure of the Board. Each committee shall consist of two or more of the directors of the Corporation. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority to amend the Restated Certificate of Incorporation (except as may be authorized in accordance with the provisions of Section 141(c)(1) of the DGCL), adopt an agreement of merger or consolidation, recommend to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's properties and assets, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution or to amend these Bylaws. Unless a resolution of the Board adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time such resolution is presented to the Board for adoption) expressly provides, no such committee shall have the power or authority to declare a dividend. Such committee(s) shall have such name(s) as may be determined from time to time by resolution adopted by the Board. Each committee shall keep regular minutes of its meetings and report the same to the Board when required. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in place of any such absent or disqualified member.

SECTION 2. Committee Rules. Each committee of the Board may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by the resolution of the Board designating such committee or the charter adopted by the Board for such committee. In the absence of such rules, each committee shall conduct its business in as nearly as may be in the same manner as the Board conducts its business pursuant to Article III of these Bylaws.

SECTION 3. Termination of Committee Membership. In the event any person shall cease to be a director of the Corporation, such person shall simultaneously therewith cease to be a member of any committee appointed by the Board of Directors.

ARTICLE V

Officers

SECTION 1. Number. The principal officers of the Corporation shall be designated by the Board and shall consist of a President, such number of Vice Presidents as the Board may determine from time to time, a Treasurer, a Secretary and such number of Assistant Treasurers and Assistant Secretaries as the Board may determine from time to time. The Board may, in its discretion, create such offices and confer such titles as Chief Executive Officer, Chief Financial Officer, Chief Operating Officer or Chief Legal Officer and designate any Vice President by a number or numbers or a word or words (including, without limitation, the words “Executive” and “Senior”) added before or after such title. The Board may appoint, and authorize the appointment of, such other officers of the Corporation as the Board deems necessary, and such officers shall have such authority and shall perform such duties as these Bylaws or as the Board may prescribe. Any number of offices may be held by the same person, except that no person may simultaneously hold the offices of President and Secretary.

SECTION 2. Term of Office. Each officer shall hold office until his or her successor is duly elected and qualified or until his or her earlier death or resignation or removal in the manner hereinafter provided.

SECTION 3. Removal and Resignation. Any officer, agent or employee of the Corporation may be removed, either with or without cause, by an affirmative vote of the majority of the Board of Directors at any regular or special meeting of the Board of Directors, or, except in the case of any officer elected by the Board, by any committee or superior officer upon whom such power may be conferred by the Board. Designation of an officer shall not itself create contract rights. Any officer may resign at any time by giving written or electronic notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

SECTION 4. President. The President, subject to the direction of the Board, shall have such powers and perform such duties as pertain to the office of President and as the Board may from time to time prescribe, shall have the direction of all subordinate officers, agents and employees and may assign such duties to such other officers as he or she deems appropriate, and shall perform such other duties and exercise such other powers as may from time to time be prescribed by these Bylaws or the Board.

SECTION 5. Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board or the President may from time to time prescribe and shall perform such other duties as may be prescribed by these Bylaws. At the request of the President, or in case of his or her absence or inability to act, any of the Vice Presidents shall perform the duties of the President and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President.

SECTION 6. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation, and shall deposit all such funds in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of these Bylaws. He or she shall disburse the funds of the Corporation as may be ordered by the Board, making proper vouchers for such disbursements, and shall render to the Board whenever required to do so, and shall present at the annual meeting of the stockholders, if called upon to do so, a statement of all his or her transactions as Treasurer. He or she shall have such powers and perform such duties as pertain to the office of Treasurer and shall perform such other duties as may from time to time be assigned to him or her by the Board.

SECTION 7. Secretary. The Secretary shall keep the records of the proceedings of all meetings of the stockholders and the Board or any committees thereof. He or she shall affix the seal of the Corporation to all deeds, contracts, bonds or other instruments requiring the corporate seal when the same shall have been signed on behalf of the Corporation by a duly authorized officer and shall be the custodian of all contracts, deeds, documents and all other indicia of title to properties owned by the Corporation and of its other corporate records (except accounting records). He or she shall have such powers and perform such duties as pertain to the office of Secretary and shall perform such other duties as may from time to time be assigned to him or her by the Board.

SECTION 8. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these Bylaws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the Board or by the person responsible for appointing such officers, assistant officers and agents, as the case may be.

SECTION 9. Execution of Contracts and Instruments. Notwithstanding the foregoing description of the duties and powers of corporate officers, the Board may from time to time limit or qualify such duties and powers by an instrument designated by the Board or pursuant to the Board’s delegated authority as a corporate delegation of authority, and the duties and powers of the Corporation’s officers shall be so limited. The Board may also from time to time specifically authorize one or more officers or agents of the Corporation to enter into such contracts, execute such instruments and take such other actions in the name of and on behalf of the Corporation for such specific purposes and in connection with such specific matters and transactions as the Board in its discretion may determine. Any instrument may be executed on behalf of and in the name of the Corporation: (a) by the Chairman of the Board, the President, the Chief Executive Officer (if any), the Chief Financial Officer (if any), the Chief Operating Officer (if any) or any Vice President, together with the Secretary, the Treasurer or any Assistant Secretary, or any Assistant Treasurer, in each case, subject to any instrument that the Board or those authorized by it may designate as a "corporate delegation of authority," (b) by such officers specifically authorized to act by Board resolution for a specific purpose or (c) by any other person authorized to do so by, and subject to the limits stated in, the instrument that the Board or those authorized by it may designate as a "corporate delegation of authority", and such persons shall be deemed agents of the Corporation for such purposes. Except as otherwise designated or expressly authorized by these Bylaws, or an instrument properly designated as a "corporate delegation of authority" no officer, employee or agent of the Corporation shall have any power or authority to bind the Corporation by contract or otherwise or to pledge its credit or to render it liable pecuniarily for any purpose or to any amount.

SECTION 10. Security. The Board may require any officer, agent or employee of the Corporation to provide security for the faithful performance of his or her duties, in such amount and of such character as may be determined from time to time by the Board.

ARTICLE VI

Proxies, Checks, Drafts, Bank Accounts, Etc.

The President, or any other officer designated by the Board as having such authority, shall have authority from time to time to exercise in the name and on behalf of the Corporation the powers and rights which the Corporation may have as the holder of stock or other securities or interests in any other corporation or business entity and to vote or consent in respect of such stock, securities or interest; the President or such designated officers may designate an agent or agents to perform such function and may instruct the person or persons so appointed as to the manner of exercising such powers and rights; and the President or such designated officers may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, such written proxies, powers of attorney or other instruments as they may deem necessary or proper in order that the Corporation may exercise its said powers and rights. All checks and drafts on the Corporation bank accounts and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be signed by such officer or officers or agent or agents or other employee or employees as shall be thereunto authorized from time to time by the Board. Third parties shall be entitled to rely on the authority delegated by the Board or pursuant to its delegated authority in an instrument designated as a "corporate delegation of authority" as to all matters governed by this Article VI.

ARTICLE VII

Books and Records

The books and records of the Corporation may be kept at such places within or without the State of Delaware as the Board may from time to time determine.

ARTICLE VIII

Seal

The corporate seal shall have inscribed thereon the name of the Corporation and may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. The seal may be affixed by any officer of the Corporation to any instrument executed by authority of the Corporation, and the seal when so affixed may be attested by the signature of any officer of the Corporation.

ARTICLE IX

Fiscal Year

The fiscal year of the Corporation shall end on the 31st day of December in each year, unless changed by resolution of the Board.

ARTICLE X

Indemnification

SECTION 1. Indemnification of Directors and Officers in Third Party Proceedings. Subject to the other provisions of this Article X, the Corporation shall indemnify and hold harmless, to the fullest extent permitted by the DGCL (as the same exists now or as it may be hereinafter amended, but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), any person (and the heirs, executors, administrators or estate of such person) who was or is a party or is threatened to be made a party to, or otherwise becomes involved in, any threatened, pending or completed action, suit, investigation, inquiry, hearing, mediation, arbitration, other alternative dispute mechanism or any other proceeding, whether civil, criminal, administrative, regulatory, investigative, legislative or otherwise and whether formal or informal (as further defined in Section 19 of this Article X, a "Proceeding") (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was serving, or had agreed to serve, in an Official Capacity (as defined in Section 19 of this Article X) for the Corporation, or while serving in an Official Capacity for the Corporation is or was serving at the request of the Corporation in an Official Capacity for another corporation, partnership, limited liability company, joint venture, trust or other enterprise (an "Other Enterprise"), including service with respect to employee benefit plans maintained or sponsored by the Corporation, or is an employee of the Corporation specifically designated by the Board as an indemnified employee (hereinafter, each of the foregoing persons, a "Covered Person"), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had no reasonable cause to believe his or her conduct was unlawful.

SECTION 2. Indemnification of Directors and Officers in Actions by or in the Right of the Corporation. Subject to the other provisions of this Article X, the Corporation shall indemnify and hold harmless, to the fullest extent permitted by the DGCL, any Covered Person who was or is a party or is threatened to be made a party to, or otherwise becomes involved in, a Proceeding by or in the right of the Corporation against Expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; provided that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

SECTION 3. Successful Defense. To the extent that a Covered Person has been successful on the merits or otherwise in defense of any Proceeding described in Sections 1 or 2 of this Article X, or in defense of any claim, issue or matter therein, such person shall be indemnified against Expenses (as defined in Section 19 of this Article X) (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

SECTION 4. Indemnification of Others. Subject to the other provisions of this Article X, the Corporation shall have power to indemnify its employees and its agents to the extent not prohibited by the DGCL or other applicable law. Subject to applicable law, the Board shall have the power to delegate the determination of whether employees or agents shall be indemnified to such person or persons as the Board determines.

SECTION 5. Advance Payment of Expenses.

(a) Expenses (including attorneys' fees) incurred by any Covered Person in defending any Proceeding shall be paid by the Corporation in advance of the final disposition of such Proceeding. Such advances shall be paid by the Corporation within ten (10) calendar days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time; *provided*, that the payment of such expenses incurred by a Covered Person in his or her capacity as a director or officer shall be made only upon delivery to the Corporation of an undertaking in writing by or on behalf of such Covered Person to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right of appeal (a "final disposition") that such Covered Person is not entitled to be indemnified for such expenses under this bylaw or otherwise. The Covered Person's undertaking to repay the Corporation any amounts advanced for Expenses shall not be required to be secured and shall not bear interest.

(b) Except as otherwise provided in the DGCL or this Section 5, the Corporation shall not impose on the Covered Person additional conditions to the advancement of Expenses or require from the Covered Person additional undertakings regarding repayment. Advancements of Expenses shall be made without regard to the Covered Person's ability to repay the Expenses.

(c) Advancements of Expenses pursuant to this subsection shall not require approval of the Board or the stockholders of the Corporation, or of any other person or body. The Secretary shall promptly advise the Board in writing of the request for advancement of Expenses, of the amount and other details of the request and of the undertaking to make repayment provided pursuant to this Section 5.

(d) Advancements of Expenses to a Covered Person shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Corporation to support the advancements claimed.

(e) The right to advancement of Expenses shall not apply to (i) any action, suit or proceeding against a Covered Person brought by the Corporation and approved by a majority of the authorized members of the Board which alleges willful misappropriation of corporate assets by such agent, wrongful disclosure of confidential information, or any other willful and deliberate breach in bad faith of such agent's duty to the Corporation or its stockholders, or (ii) any claim for which indemnification is excluded pursuant to these Bylaws, but shall apply to any Proceeding referenced in Section 6(c) prior to a determination that the person is not entitled to be indemnified by the Corporation.

SECTION 6. Limitations on Indemnification. Except as otherwise required by the DGCL or the Corporation's Restated Certificate of Incorporation, the Corporation shall not be obligated to indemnify any person pursuant to this Article X in connection with any Proceeding (or any part of any Proceeding):

(a) for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(b) for an accounting or disgorgement of profits pursuant to Section 16(b) of the Exchange Act, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements);

(c) for any reimbursement of the Corporation by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the Corporation, as required in each case under the Exchange Act, including any such reimbursements that arise from an accounting restatement of the Corporation pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") or the rules of any national securities exchange upon which the Corporation's securities are listed, if such person is held liable therefor (including pursuant to any settlement arrangements);

(d) for any reimbursement of the Corporation by such person of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act, if such person is held liable therefor (including pursuant to any settlement arrangements);

(e) initiated by such person against the Corporation or its directors, officers, employees, agents or other indemnitees, unless (a) the Board authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the Corporation provides the indemnification, in its sole discretion, pursuant to the powers vested in the Corporation under applicable law, (c) otherwise made under Section 5 of this Article X or (d) otherwise required by applicable law; or

(f) if prohibited by applicable law.

SECTION 7. Indemnification Claims; Determination.

(a) To obtain indemnification under this Article X, a Covered Person shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to the Covered Person and is reasonably necessary to determine whether and to what extent the Covered Person is entitled to indemnification. Upon written request by a Covered Person for indemnification, a determination (the "Determination"), if required by applicable law, with respect to the Covered Person's entitlement thereto shall be made as follows: (i) by the Board by majority vote of a quorum consisting of Disinterested Directors (as defined in Section 19 of this Article X); (ii) if such a quorum of Disinterested Directors cannot be obtained, by majority vote of a committee duly designated by the Board (all directors, whether or not Disinterested Directors, may participate in such designation) consisting solely of two or more Disinterested Directors; (iii) if such a committee cannot be designated, by any Independent Counsel (as defined in Section 19 of this Article X) selected by the Board, as prescribed in (i) above or by the committee of the Board prescribed in (ii) above, in a written opinion to the Board, a copy of which shall be delivered to the claimant; or if a quorum of the Board cannot be obtained for (a) above and the committee cannot be designated under (b) above, selected by majority vote of the full Board (in which directors who are parties may participate); or (iv) if such Independent Legal Counsel determination cannot be obtained, by majority vote of a quorum of stockholders consisting of stockholders who are not parties to such Proceeding, or if no such quorum is obtainable, by a majority vote of stockholders who are not parties to the Proceeding. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within thirty (30) calendar days after such determination.

(b) If a claim for indemnification under this Article X is not paid in full by the Corporation within thirty (30) calendar days after a determination is made pursuant to Section 7(a) that the claimant is entitled to be indemnified, or (ii) if a request for advancement of Expenses under this Article X is not paid in full by the Corporation within ten (10) calendar days after a statement pursuant to Section 5 above and the required Undertaking, if any, have been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation in a court of competent jurisdiction to recover the unpaid amount of the claim for indemnification or request for advancement of Expenses and, if successful in whole or in part, the claimant shall be entitled to be paid also any and all Expenses incurred in connection with prosecuting such claim. In any such suit, the Corporation shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of Expenses. It shall be a defense to any such action that, under the DGCL or other applicable law, the claimant has not met the standard of conduct which makes it permissible for the Corporation to indemnify the claimant for the amount claimed or that the claimant is not entitled to the requested advancement of Expenses, but (except where the required Undertaking, if any, has not been tendered to the Corporation) the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Disinterested Directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth under the DGCL or other applicable law, nor an actual determination by the Corporation (including its Disinterested Directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful.

(d) If a Determination shall have been made pursuant to Section 7(a) above that the claimant is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to Section 7(b) above.

(e) The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to Section 7(b) above that the procedures and presumptions of this Bylaw are not valid, binding and enforceable and shall stipulate in such proceeding that the Corporation is bound by all the provisions of this Bylaw.

SECTION 8. Procedures for the Determination of Whether Standards Have Been Satisfied.

(a) Costs. All costs incurred by the Corporation in making the Determination shall be borne solely by the Corporation, including, but not limited to, the costs of legal counsel, proxy solicitations and judicial determinations. The Corporation shall also be solely responsible for paying all costs incurred by it in defending any suits or Proceedings challenging payments by the Corporation to a Covered Person under these Bylaws.

(b) Timing of the Determination. The Corporation shall use its best efforts to make the Determination contemplated by Section 7 hereof as promptly as is reasonably practicable under the circumstances.

SECTION 9. Non-exclusivity of Rights. The rights of indemnification and advancement of Expenses provided in this Article X shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, insurance policy, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office. The Corporation is specifically authorized to enter into an agreement with any of its directors, officers, employees or agents providing for indemnification and advancement of expenses, including attorneys' fees, that may change, enhance, qualify or limit any right to indemnification or advancement of expenses created by this Article X, to the fullest extent not prohibited by the DGCL or other applicable law.

SECTION 10. Continuation of Rights. The rights of indemnification and advancement of expenses provided in this Article X shall continue as to any person who has ceased to be a director, officer, partner, member, trustee, agent or employee and shall inure to the benefit of his or her heirs, executors, administrators and estates.

SECTION 11. Contract Rights. Without the necessity of entering into an express contract, the obligations of the Corporation to indemnify a director, officer, partner, member, trustee, agent or employee under this Article X, including the duty to advance expenses, shall be considered a contract right between the Corporation and such individual and shall be effective to the same extent and as if provided for in a contract between the Corporation and the director or executive officer. Such contract right shall be deemed to vest at the commencement of such individual's service to or at the request of the Corporation, and no amendment, modification or repeal of this Article X shall affect, to the detriment of the indemnified person and such indemnified person's heirs, executors, administrators and estate, such obligations of the Corporation in connection with a claim based on any act or failure to act occurring before such modification or repeal.

SECTION 12. Subrogation. In the event of payment of indemnification to a person described in Sections 1 or 2 of this Article X, the Corporation shall be subrogated to the extent of such payment to any right of recovery such person may have and such person, as a condition of receiving indemnification from the Corporation, shall execute all documents and do all things that the Corporation may deem necessary or desirable to perfect such right of recovery, including the execution of such documents necessary to enable the Corporation effectively to enforce any such recovery.

SECTION 13. No Duplication of Payments. The Corporation shall not be liable under this Article X to make any payment in connection with any claim made against a person described in Sections 1 or 2 of this Article X to the extent such person has otherwise received payment (under any insurance policy, bylaw, agreement or otherwise) of the amounts otherwise payable as indemnity hereunder.

SECTION 14. Insurance and Funding.

(a) The Board of Directors may authorize that the Corporation purchase and maintain, at the Corporation's expense, insurance to protect the Corporation and any person against any liability or expense asserted against or incurred by such person in connection with any Proceeding, whether or not the Corporation would have the power to indemnify such person against such liability or expense by law or under this Article X or otherwise. The Corporation may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to insure the payment of such sums as may become necessary to effect the indemnification provided herein.

(b) Any full or partial payment by an insurance company under any insurance policy covering any director, officer, employee, agent or other person indemnified above made to or on behalf of a person entitled to indemnification under this Article X shall relieve the Corporation of its liability for indemnification provided for under this Article X or otherwise to the extent of such payment.

(c) Any insurance or other financial arrangement made on behalf of a person pursuant to this Section 14 may be provided by the Corporation or any other person approved by the Board of Directors, even if all or part of the other person's stock or other securities is owned by the Corporation. In the absence of fraud, (i) the decision of the Board of Directors as to the propriety of the terms and conditions of any insurance or other financial arrangement made pursuant to this Section 14 and the choice of the person to provide the insurance or other financial arrangement is conclusive; and (ii) the insurance or other financial arrangement does not subject any director approving it to personal liability for his action in approving the insurance or other financial arrangement; even if a director approving the insurance or other financial arrangement is a beneficiary of the insurance or other financial arrangement.

SECTION 15. No Imputation. The knowledge and/or actions, or failure to act, of any other officer, director, employee or agent of the Corporation or an Other Enterprise shall not be imputed to an indemnified person for purposes of determining the right to indemnification under this Article X.

SECTION 16. Reliance. Persons who after the date of the adoption of Article X or any amendment thereto serve or continue to serve the Corporation in an Official Capacity or who, while serving in an Official Capacity, serve or continue to serve in an Official Capacity for an Other Enterprise, shall be conclusively presumed to have relied on the rights to indemnification and advancement of Expenses contained in this Article X.

SECTION 17. Severability. If this Article X or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each director and officer and any other person indemnified pursuant to this Article X as to all Expenses with respect to any Proceeding to the full extent permitted by any applicable portion of this Article X that shall not have been invalidated and to the fullest extent permitted by applicable law.

SECTION 18. Notices. Any notice, request or other communication required or permitted to be given to the Corporation under this Article X shall be in writing and either delivered in person or sent by U.S. mail, overnight courier or by e-mail or other electronic transmission, to the Secretary of the Corporation and shall be effective only upon receipt by the Secretary.

SECTION 19. Certain Definitions.

(a) The term "Corporation" shall include, in addition to American Water Works Company, Inc. and, in the event of a consolidation or merger involving the Corporation, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article X with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(b) The term "Disinterested Director" means a director of the Corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

(c) The term "Expenses" shall be broadly construed and shall include, without limitation, all direct and indirect losses, liabilities, expenses, including fees and expenses of attorneys, fees and expenses of accountants, court costs, transcript costs, fees and expenses of experts, witness fees and expenses, travel expenses, printing and binding costs, telephone charges, delivery service fees, the premium, security for, and other costs relating to any bond (including cost bonds, appraisal bonds, or their equivalents), judgments, fines (including excise taxes assessed on a person with respect to an employee benefit plan) and amounts paid in settlement and all other disbursements or expenses of the types customarily incurred in connection with (i) the investigation, prosecution, defense, appeal or settlement of a Proceeding, (ii) serving as an actual or prospective witness, or preparing to be a witness in a Proceeding, or other participation in, or other preparation for, any Proceeding, (iii) any compulsory interviews or depositions related to a Proceeding, (iv) any non-compulsory interviews or depositions related to a Proceeding, subject to the person receiving advance written approval by the Corporation to participate in such interviews or depositions, and (v) responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses shall also include any federal, state, local and foreign taxes imposed on such person as a result of the actual or deemed receipt of any payments under this Article X.

(d) The term "Independent Counsel" means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the corporation or the claimant in an action to determine the claimant's rights under this Article X.

(e) The term "Official Capacity" shall mean service as a director or officer of the Corporation or service, at the request of the Corporation while serving in an Official Capacity for the Corporation, as a director, officer, partner, member, manager, trustee, employee, agent or other representative of an Other Enterprise.

(f) The term "Proceeding" shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, mediation, arbitration and appeal of, and the giving of testimony in, any Proceeding.

(g) The term "serving at the request of the Corporation" includes any service as a director, officer, employee, or agent of the Corporation that imposes duties on such persons, including duties relating to an employee benefit plan and its participants or beneficiaries.

(h) The term "not opposed to the best interest of the Corporation," when used in the context of a Covered Person's service with respect to employee benefit plans maintained or sponsored by the Corporation, describes the actions of a person who acts in good faith and in a manner he reasonably believes to be in the best interests of the participants and beneficiaries of an employee benefit plan.

ARTICLE XI

Shares and Their Transfer

SECTION 1. Certificated and Uncertificated Shares. The shares of the Corporation shall be represented by certificates, or shall be uncertificated shares evidenced by a book-entry system, or a combination of both. Certificates shall be signed by, or in the name of the Corporation by, (i) the President or a Vice President and (ii) the Secretary or an Assistant Secretary, certifying the number and class of shares of the Corporation owned by the holder of such certificate. If such a certificate is countersigned (a) by a transfer agent or an assistant transfer agent other than the Corporation or its employee or (b) by a registrar other than the Corporation or its employee, the signature of any such President, Vice President, Secretary or Assistant Secretary may be a facsimile. In case any officer(s) who have signed, or whose facsimile signature(s) have been used on, any such certificate(s) shall cease to be such officer(s) of the Corporation, whether because of death, resignation or otherwise, before such certificate(s) have been delivered by the Corporation, such certificate(s) may nevertheless be issued and delivered as though the person or persons who signed such certificate(s) or whose facsimile signature(s) have been used thereon had not ceased to be such officer(s) of the Corporation.

SECTION 2. Registered Stockholders. A record shall be kept of the name of the person, firm or corporation owning each share of stock of the Corporation, including, in the case of stock represented by each certificate for stock of the Corporation issued, the number of shares represented by each such certificate, and the date thereof, and, in the case of cancellation, the date of cancellation. Except as otherwise expressly required by law, the person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Without limiting the generality of the foregoing, the Corporation (a) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner; and (b) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

SECTION 3. Transfers of Stock. Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except when a certificate is issued in accordance with Section 4 of this Article XI, in the case of stock represented by a certificate, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

SECTION 4. Lost, Destroyed or Mutilated Certificates. In the case of an alleged loss or destruction or the mutilation of a certificate representing stock of the Corporation, a new certificate may be issued in place thereof, in the manner and upon such terms as the Board may prescribe. Without limiting the generality of the foregoing, the Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

SECTION 5. Fractional Shares. The Corporation shall have the complete discretion to issue fractional shares.

SECTION 6. Record Date. The Board of Directors may by resolution of the Board adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time such resolution is presented to the Board for adoption) fix in advance a date as a record date for the determination of the stockholders entitled to notice of and to vote at any meeting of stockholders, or entitled to receive payment of any dividends or other distribution, or to exercise the rights in respect to any change, conversion, or exchange of capital stock, and in such case only stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend or other distribution, or allotment of rights, or exercise such rights, as the case may be, and notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as herein provided. In no event may any such record date: (i) be more than sixty (60) days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date when any change or conversion or exchange of capital stock shall go into effect, or (ii) precede the date upon which the resolution fixing the record date is adopted by the Board of Directors. A determination of stockholders of record entitled to notice of or to vote at any meeting of stockholders shall apply to any adjournment of the meeting; *provided*, *however*, that the Board may fix a new record date for the adjourned meeting.

ARTICLE XII

General Provisions

SECTION 1. Section Headings. Section headings in these Bylaws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

SECTION 2. Gender. All words used in these Bylaws in the masculine gender shall extend to and shall include the feminine and neuter genders.

SECTION 3. Time Periods. In applying any provision of these Bylaws that requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, unless the use of business days are specified, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

SECTION 4. Evidence of Authority. A certificate by the Secretary, or an Assistant Secretary, or a temporary Secretary, as to any action taken by the stockholders, directors, a committee or any officer or representative of the Corporation shall, as to all persons who rely on the certificate in good faith, be conclusive evidence of such action.

SECTION 5. Restated Certificate of Incorporation. All references in these Bylaws to the Restated Certificate of Incorporation shall be deemed to refer to the Restated Certificate of Incorporation of the Corporation, as amended and in effect from time to time, including the terms of any certificate of designations of any series of Preferred Stock.

SECTION 6. Bylaw Provisions Additional and Supplemental to Provisions of Law. All restrictions, limitations, requirements and other provisions of these Bylaws shall be construed, insofar as possible, as supplemental and additional to all provisions of law applicable to the subject matter thereof and shall be fully complied with in addition to the said provisions of law unless such compliance shall be illegal.

SECTION 7. Interpretation. Unless the context requires otherwise, the general provisions, rules of construction and definitions in the DGCL shall govern the construction of these Bylaws. Reference in these Bylaws to any provision of the DGCL shall be deemed to include all amendments thereof. The term “person” includes both a corporation and a natural person. The term “Chief Executive Officer” shall be equivalent to the term “President” under the DGCL.

SECTION 8. Inconsistent Provisions. In the event that any provision of these Bylaws is or becomes inconsistent with any provision of the Corporation’s Restated Certificate of Incorporation, the DGCL or any other applicable law, such provision of these Bylaws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

SECTION 9. Notices. Except as otherwise specifically provided herein or required by the DGCL or other applicable law or the Restated Certificate of Incorporation, all notices required to be given to any person pursuant to these Bylaws shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such notice in the mails, postage paid, addressed to such person at his or her last known address as the same appears on the books of the Corporation. Notices may also be sent by facsimile or other electronic transmission.

SECTION 10. Notice to Stockholders by Electronic Transmission.

(a) Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the Restated Certificate of Incorporation or these Bylaws, any notice to stockholders given by the Corporation under any provision of the DGCL, the Restated Certificate of Incorporation or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if (a) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent;

and (b) such inability becomes known to the Secretary or an Assistant Secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice. However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

(b) Any notice given pursuant to the preceding paragraph shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

(c) For purposes of these Bylaws, an "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

SECTION 11. Notice to Stockholders Sharing an Address. Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under the provisions of the DGCL, the Restated Certificate of Incorporation or these Bylaws shall be effective if given by a single written notice to stockholders who share an address if (a) consented to by the stockholders at that address to whom such notice is given, or (b) the Corporation complies with the provisions of Rule 14a-3(e) of the Exchange Act. The stockholder consent referenced in the immediately preceding sentence shall be revocable by the stockholder by written notice to the Corporation. Any stockholder who fails to object in writing to the Corporation, within sixty (60) days of having been given written notice by the Corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

SECTION 12. Waiver of Notice. Whenever notice is required to be given to stockholders, directors or other persons under any provision of the DGCL, the Restated Certificate of Incorporation or these Bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting, whether in person, by remote communication, if applicable, or by proxy, shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders or the board of directors, as the case may be, need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Restated Certificate of Incorporation or these Bylaws. Any person so waiving notice of such a meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

ARTICLE XIII

Exclusive Forum

Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation arising pursuant to any provision of the DGCL or the Corporation's Restated Certificate of Incorporation or Bylaws (in each case, as they may be amended from time to time), or (iv) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation governed by the internal affairs doctrine, shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware), in all cases to the fullest extent permitted by law and subject to said court having personal jurisdiction over the indispensable parties named as defendants therein.

ARTICLE XIV

Amendments

These Bylaws and any amendment thereof may be altered, amended or repealed, or new bylaws may be adopted by (i) the Board by resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time such resolution is presented to the Board for adoption) acting at any special or regular meeting of the Board if, in addition to any other notice required by these Bylaws and other applicable requirements contained herein, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting, which notice shall also include, without limitation, the text of any such proposed amendment and/or any resolution calling for any such amendment, alteration or repeal, or (ii) the stockholders, provided that, in addition to any other notice required by these Bylaws and other applicable requirements contained herein, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting, which notice (or proxy statement accompanying such notice or accessible through a website URL provided in such notice or in a document accompanying such notice) shall also include, without limitation, the text of any such proposed amendment and/or any resolution calling for any such amendment, alteration or repeal.

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATE OF AMENDMENT OF BYLAWS

The undersigned hereby certifies that he is the duly elected, qualified, and acting Assistant Secretary of AMERICAN WATER WORKS COMPANY, INC., a Delaware corporation (the "Corporation"), and that the foregoing bylaws were amended and restated on August 3, 2015 by the Corporation's board of directors.

IN WITNESS WHEREOF, the undersigned has hereunto set his or her hand this 3rd day of August, 2015.

/s/ Jeffrey M. Taylor
Jeffrey M. Taylor, Assistant Secretary

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Section 3: EX-10.1 (EX-10.1)

Exhibit 10.1

AMERICAN WATER WORKS COMPANY, INC.

2007 OMNIBUS EQUITY COMPENSATION PLAN

STOCK UNIT GRANT

This STOCK UNIT GRANT, dated as of May 15, 2015 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to ______ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined to grant each non-employee member of the Board of Directors of the Company (the "Board") who is a non-employee director of the Company immediately following the Company's 2015 Annual Stockholder meeting a stock unit grant that will be converted to shares of common stock of the Company, par value $0.01 per share, (the "Company Stock") at a later date;

WHEREAS, the Participant is a non-employee director on the Board; and

WHEREAS, the Committee has determined that the stock unit grant granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such stock unit shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ units (the "Stock Units"). Each Stock Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable distribution date, as described in Paragraph 4 below.

2. Stock Unit Account. The Company shall establish and maintain a Stock Unit account as a bookkeeping account on its records (the "Stock Unit Account") for the Participant and shall record in such Stock Unit Account the number of Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Stock Unit Account established for the Participant.

3. Vesting. The Participant shall be fully vested in the Stock Units credited to the Participant's Stock Unit Account pursuant to this Grant on the Date of Grant.

4. Distribution. The Stock Units shall be converted to shares of Company Stock and distributed by the Company within thirty (30) days following the earlier of (i) August 14, 2016 (the "Specified Date") (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), (ii) the Participant's separation from service (within the meaning of section 409A of the Internal

Revenue Code of 1986, as amended (the "Code")) with the Company (the "Separation from Service Date"), or (iii) the date of a Change of Control (as defined below) (the "Change of Control Date"). At the time of distribution, all Stock Units shall be converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of this Grant, the term "Change of Control" shall have the same meaning as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Code and its corresponding regulations.

5. Deferrals. The Participant may make an irrevocable election to defer the Specified Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Stock Units, plus dividend equivalents earned on such Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Specified Date cannot be earlier than five (5) years from the original Specified Date under Paragraph 4 (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Specified Date (or twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Specified Date, the Participant must elect to defer 100% of the Stock Units, including corresponding dividend equivalents, granted to the Participant under this Grant and complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Separation from Service Date or Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's Stock Units, plus corresponding dividend equivalents, will be made as a result of the occurrence of the Separation from Service Date or Change of Control Date, whichever is earlier. If a Specified Date is delayed one or more times pursuant to this Paragraph 5, the new Specified Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the earlier of the Specified Date (or the Deferred Date, if elected), Separation from Service Date or Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Stock Units credited to the Participant's Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Stock Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a)The obligation of the Company to deliver shares of Company Stock upon the distribution of the Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock upon conversion of the Stock Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the distribution of the Stock Units shall not be tradable until the Participant owns enough shares of Company Stock outright, as stock units convertible into shares of Company Stock, and time-based restricted Company Stock, to meet or exceed five (5) times the Participant's annual cash retainer, which ownership requirement must be satisfied by the

the fifth (5th) anniversary of the Participant's commencement of service as a director on the Board.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

11. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Stock Units.

12. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer (as defined in the Plan) and shall not interfere in any way with the right to terminate the Participant's employment or service at any time. The right to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Stock Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Stock Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. To the extent required by applicable law, the Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal, state, local or other taxes that the Company is required to withhold with respect to the Grant, vesting or distribution of the Stock Units and dividend equivalents.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the records of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) This Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Except according to a valid election made pursuant to Paragraph 5 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant are payable to the Participant upon separation from service (within the meaning of section 409A of the Code) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer. If the Participant dies during such six (6)-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: **Susan Story**

Susan Story

Its: President and CEO

EXHIBIT A

SUBSEQUENT DEFERRAL ELECTION FORM

PART A. TIME OF DISTRIBUTION

I, ______________, (the "Participant") hereby irrevocably elect to have all of the Stock Units, plus corresponding dividend equivalents, (the "Deferred Units") granted to me pursuant to the Stock Unit Grant, dated as of May 15, 2015, (the "Grant") under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") that would have been distributed by American Water Works Company, Inc. to me on the Specified Date (as defined in the Grant), instead be distributed to me on the deferred date designated below (the "Deferred Date"), which date must be at least five (5) years later than the Specified Date, and this election is at least twelve (12) months prior to the Specified Date (to make this deferral election you must defer all of the Stock Units, plus corresponding dividend equivalents, granted to you pursuant the Grant, meaning there is no partial deferral):

Number of Stock Units, and Dividend Equivalents, to be Further Deferred (All Must Be Deferred)	Original Specified Date (Election Must Be Made at Least 12 Months Prior to the Specified Date)	Deferred Date (Must be a date that is at least 5 years later than the Original Specified Date)
100%	August 14, 2016	

PART B. ACKNOWLEDGMENT

I understand and expressly agree that (i) the Deferred Date for the Deferred Units shall be the date I specified in Part A above (which is a date that is at least five (5) years later than the original Specified Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event that the Separation from Service Date (as defined in the Grant) or the Change of Control Date (as defined in the Grant) occurs prior to the Deferred Date. I also understand and expressly agree that this deferral election is irrevocable, is being made at least twelve (12) months prior to the original Specified Date, and shall not take effect until twelve (12) months after the date on which I make this election. I further understand and agree that the terms and conditions of the Grant and the Plan are hereby incorporated into this form. Lastly, I understand and agree that this deferral election applies to 100% of the Stock Units, and corresponding dividend equivalents, granted to me pursuant to the Grant.

PARTICIPANT SIGNATURE

Participant: ______________________________ Date: ____________________

Receipt Acknowledged:

By: ____________________________

Title: ___________________________ Date: _________________________

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Section 4: EX-10.3 (EX-10.3)

Exhibit 10.3

SEVERANCE AGREEMENT AND GENERAL RELEASE

This Severance Agreement and General Release ("Agreement"), dated January ___, 2015, is among American Water Works Company, Inc. and American Water Works Service Company, Inc. (collectively, "American Water" or the "Company") and Kellye L. Walker (the "Executive").

RECITALS

WHEREAS, the Executive has been employed by the Company as Senior Vice President, General Counsel and Secretary;

WHEREAS, the Executive and the Company previously entered into a Letter Agreement, dated November 11, 2014, (the "Letter Agreement") pursuant to which it was agreed that Executive's employment with American Water would terminate on January 6, 2015 (the "Separation Date") and Executive would receive certain payments if Executive executes, and does not revoke, this Agreement; and

WHEREAS, without admission of liability on the part of either of the Executive or the Company (herein, the "Parties"), the Parties desire to resolve amicably the Executive's separation from employment, and to establish the terms of a severance agreement and release of claims.

NOW, THEREFORE, in consideration of the promises and conditions set forth herein, the sufficiency of which is hereby acknowledged, the Company and the Executive agree as follows:

1. **Termination of Employment; Consulting Obligations Following Termination.** Executive understands and agrees that her termination of employment is effective as of the close of business on the Separation Date. Executive agrees that for the six (6) month period following the Separation Date, Executive shall provide consulting services to the Company, which services shall be those as are reasonably requested by the Company's Chief Executive Officer; provided, that these consulting services shall not limit Executive's ability to become employed by another employer.
2. **Severance; Conditions of Receipt and Timing.** In return for the execution and non-revocation of the Agreement and the full performance by the Executive of the Executive's obligations described in this Agreement, the Company agrees to provide the Executive with the following:
    a. Executive will receive a cash severance payment equal to $612,250 (the "Severance Payment"), less applicable federal, state and local tax withholdings and deductions in accordance with the Company's normal payroll practices. The Severance Payment will be paid to Executive in substantially equal installments over the twelve (12) month period following the Separation Date (the "Severance Period") in accordance with the Company's payroll schedule in effect on the Separation Date; provided, that the first payment shall be paid to Executive within thirty (30) days following the Separation Date and include any installments that would be payable within such thirty (30) day period, and the subsequent installment payments shall be paid in accordance with the Company's scheduled payroll dates over the remainder of the twelve (12) month period from the Separation Date.
    b. Executive will receive a cash payment equal to $318,125 (the "Consulting Payment"), less applicable federal, state and local tax withholdings and deductions in accordance with the Company's normal payroll practices, which Consulting Payment is intended to compensate Executive for the consulting services that Executive has agreed to provide to the Company for the six (6) month period following the Separation Date. The Consulting Payment will be paid to Executive in substantially equal installments over the six (6) month period following the Separation Date in accordance with the Company's payroll schedule in effect on the Separation Date; provided, that the first payment shall be paid to Executive within thirty (30) days following the Separation Date and include any installments that would be payable within such thirty (30) day period, and the subsequent installment payments shall be paid in accordance with the Company's scheduled payroll dates over the remainder of the six (6) month period from the Separation Date.
    c. For the eighteen (18) month period following the Separation Date (the "Continuation Period"), Executive shall continue to be eligible to receive the group health insurance coverages under the Company's health plans in which Executive was participating immediately prior to the Separation Date, provided that such participation is permissible under the health benefit provisions under the federal Consolidated Omnibus Budget Reconciliation Act ("COBRA") and subject to the terms of the applicable plan documents and subject

to such changes to the terms of such plans as the Company determines shall apply to employees of the Company generally; provided further that, in order to receive such coverages for the Continuation Period, Executive shall be required to pay to the Company, at or prior to the time that premium payments are due for the month, the full monthly COBRA premium required by the Company under such plans for continuation coverage by terminated employees and if Executive ceases to pay the applicable COBRA premium in accordance with the terms set forth herein, the continuation coverage shall end. During the Continuation Period, the Company will reimburse to Executive, on the first Company payroll date of each month that follows the date such payment is due, an amount equal to (x) the monthly payment Executive paid for such continuation coverage, less (y) the amount that Executive would have been required to pay for such coverage if Executive had been employed by the Company at such time, (the "COBRA Payment"), less applicable federal, state and local tax withholdings and deductions in accordance with the Company's normal payroll practices; provided that Executive shall cease to be eligible to receive the monthly COBRA Payments on the earliest of: (I) the end of the Continuation Period, (II) the first month in which Executive does not pay the applicable monthly COBRA continuation coverage premium, (III) the first month Executive is eligible to be covered by another employer's group health plan, or (IV) the date Executive otherwise ceases to be eligible for coverage under such plans under COBRA.

d. With respect to the Company's 2014 Annual Incentive Plan ("2014 AIP"), Executive will be eligible to receive a bonus award under the 2014 AIP, which bonus award amount will be determined by multiplying (i) Executive's target award amount, by (ii) the corporate multiplier that is approved by the Board of Directors based on the Company's performance. The 2014 AIP award will be paid to Executive at the same time as continuing employees are paid their bonuses under the 2014 AIP, which shall be between March 1, 2015 and March 14, 2015, subject to any deferral agreement Executive previously entered into with the Company with respect to the 2014 AIP.

e. Conditions of Receipt and Timing. The Executive shall not be entitled to receive the amounts described in subsections a. through d. of this Section 2 unless and until (i) the Executive signs this Agreement, (ii) the seven (7)-day Revocation Period referenced in Section 4(c)(vi) below expires without the Executive having exercised the Executive's right of revocation, and (iii) all Company property has been returned to the Company in accordance with Section 6 below.

f. No Other Severance Benefits. Executive acknowledges and agrees that the amounts set forth in subsections a. through d. of this Section 2 are in complete satisfaction of any and all compensation and benefits due to Executive from the Company, and that no further severance, compensation, benefits or other amounts are owed or will be paid to Executive, other than the amounts described in Section 3 of the Agreement.

3. **Accrued Benefits**. In addition to the amounts provided under Section 2 of this Agreement, following Executive's Separation Date, Executive will be entitled to receive all (i) accrued, but unpaid, base salary earned by, but not paid to, Executive prior to Executive's Separation Date, which will be paid to Executive on the first Company payroll date that follows Executive's Separation Date, subject to any deferral agreement Executive previously entered into with the Company with respect to such base salary; (ii) any accrued, but unused, vacation as of Executive's Separation Date, which will be paid to Executive on the first Company payroll date that follows Executive's Separation Date; and (iii) any accrued or owing, but not yet paid, vested benefits under the Company's 401(k) plan and nonqualified deferred compensation plan in which Executive participated, which will be paid to Executive at the times provided under such plans. Any stock options, restricted stock units and performance stock unit grants that were granted to Executive under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (collectively, the "Equity Awards") that are outstanding and vested as of Executive's Separation Date will be subject to the terms and conditions of the respective grant agreements covering such Equity Awards, and any outstanding Equity Awards which are not vested as of Executive's Separation Date are terminated as of Executive's Separation Date and Executive shall have no further rights with respect to such unvested Equity Awards.

4. **General Release of Legal Claims; Cooperation; Indemnification.**

a. General Release of Legal Claims. Except as expressly permitted or required by this Agreement or by law and as set forth in Section 4(b) below, the Executive (on behalf of the Executive and the Executive's heirs, successors, assigns and representatives) hereby agrees to unconditionally and irrevocably release and discharge, to the maximum extent permitted by law, American Water Works Service Company, Inc., American Water Works Company, Inc., and all of their respective divisions, parents, subsidiaries, affiliates or related companies, their past, present and future officers, directors, shareholders, benefit plans, insurers, attorneys, legal representatives, employees and agents and all of their respective heirs, executors,

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administrators, successors and assigns, or any other persons and/or entities through which American Water has acted with respect to the Executive (collectively, the "Releasees") from any and all claims or causes of action, suits, and demands whatsoever in law or in equity, known or unknown, arising out of or in any way connected with, or relating to any event, matter or occurrence existing or occurring before Executive signs this Agreement, including, but not limited to:

i. any claims relating to the Executive's employment with or separation of employment from the Company;

ii. any statutory, regulatory, common law or other claims of any kind, including, but not limited to, breach of contract claims (whether written or oral, express or implied), tort claims, public policy claims, defamation claims, retaliation claims, wrongful discharge claims, claims for emotional distress or pain and suffering and claims of fraud or misrepresentation;

iii. any claims for attorneys' fees or costs;

iv. any claims for monetary damages based on discrimination, retaliation or harassment claims including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, as amended, the Employee Retirement Income Security Act of 1974, as amended, and the Americans With Disabilities Act ("ADA"), as amended;

v. any claims under the Pennsylvania Human Relations Act, the Pennsylvania Equal Pay Law, the Pennsylvania Breastfeeding Rights law, the Pennsylvania Smoking in the Workplace law, the Pennsylvania Whistleblower Law, the Pennsylvania Pregnancy Guidelines of the Pennsylvania Human Relations Commission, the Pennsylvania Minimum Wage Law, and Pennsylvania common law;

vi. any claims under the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, the New Jersey State Wage and Hour Law, the New Jersey Equal Pay Act, the New Jersey Family Leave Act, the New Jersey Constitution, the New Jersey Security and Financial Empowerment Act, and New Jersey common law;

vii. any and all other claims under applicable state, county or local ordinances or regulations; or any whistleblower or other law prohibiting retaliation to the extent permitted by law;

viii. any claims regarding leaves of absence, including, but not limited to, claims under the Family and Medical Leave Act or any federal, state or local law or statute relating to leave;

ix. any claims for unpaid or withheld wages, severance, benefits, bonuses, commissions and/or other compensation of any kind, including, but not limited to, claims under any applicable federal, state or local laws;

x. any claims for monetary damages under the Age Discrimination in Employment Act of 1967 ("ADEA"), as amended by the Older Workers Benefit Protection Act ("OWBPA"), and any applicable federal, state or local laws;

xi. any claims for health and welfare benefits including, but not limited to, life insurance, accidental death and disability insurance, sick leave or other employer provided plans or programs for group health insurance coverage (excluding claims for COBRA continuation coverage);

xii. any claims under any federal, state or local military leave laws, including the Uniformed Services Employment and Reemployment Rights Act;

xiii. any claims under the Occupational Safety and Health Act;

xiv. any claims under the federal Worker Adjustment and Retraining Notification Act or state law equivalent statutes;

xv. any claims under the Fair Credit Reporting Act;

xvi. any claims under the National Labor Relations Act;

xvii. any claims under the Sarbanes-Oxley Act; or

xviii. any other claims relating to the Executive's hire, employment, or separation thereof.

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b. Scope of the Agreement. The foregoing shall in no event apply to any claims that, as a matter of applicable law, are not waivable. American Water and the Executive agree that nothing in this Agreement prevents or prohibits the Executive from: (i) making any disclosure of relevant and necessary information or documents in connection with any charge, action, investigation, or proceeding relating to this Agreement, or as required by law or legal process; (ii) participating, cooperating, or testifying in any charge, action, investigation, or proceeding with, or providing information to, any self-regulatory organization, governmental agency or legislative body, pursuant to the Sarbanes-Oxley Act; (iii) filing, testifying, participating in or otherwise assisting in a proceeding relating to an alleged violation of any federal, state or municipal law relating to fraud, or any rule or regulation of the Securities and Exchange Commission or any self-regulatory organization; or (iv) challenging the knowing and voluntary nature of the release of ADEA claims pursuant to the OWBPA. To the extent permitted by law, upon receipt of any subpoena, court order or other legal process compelling the disclosure of any such information or documents, the Executive agrees to give written notice within two (2) business days of receipt of such to American Water and prior to providing any response thereto so as to permit American Water to protect its interests in confidentiality to the fullest extent possible. To the fullest extent provided by law, the Executive agrees and acknowledges, however, that the Executive is waiving any right to recover monetary damages in connection with any such charge, action, investigation or proceeding. To the extent the Executive receives any monetary relief in connection with any such charge, action, investigation or proceeding, American Water will be entitled to an offset for the benefits made pursuant to this Agreement, to the fullest extent provided by law.

American Water and the Executive further agree that the Equal Employment Opportunity Commission ("EEOC") and comparable state or local agencies have the authority to carry out their statutory duties by investigating charges, issuing determinations, and filing lawsuits in Federal or state court in their own name, or taking any action authorized by the EEOC or comparable state or local agencies. The Executive retains the right to participate in any such action and to seek any appropriate non-monetary relief. The Executive retains the right to communicate with the EEOC and comparable state or local agencies and such communication can be initiated by the Executive or in response to the government and such right is not limited by any non-disparagement claims. American Water and the Executive agree that communication with employees plays a critical role in the EEOC's enforcement process because employees inform the agency of employer practices that might violate the law. For this reason, the right to communicate with the EEOC is a right that is protected by Federal law and the Agreement does not prohibit or interfere with those rights. Notwithstanding the foregoing, the Executive agrees to waive any right to recover monetary damages in any charge, complaint or lawsuit filed by the Executive or by anyone else on the Executive's behalf.

c. Waiver of Claims under the ADEA. The Executive acknowledges and agrees that the Executive is waiving any claims under the ADEA, as amended by the OWBPA, and that:

i. the Executive is receiving consideration which is in addition to anything of value to which the Executive otherwise would have been entitled;

ii. the Executive fully understands the terms of this Agreement and the Executive enters into it voluntarily without any coercion on the part of any person or entity;

iii. the Executive was given adequate time to consider all implications and to freely and fully consult with and seek the advice of whomever the Executive deemed appropriate and has done so;

iv. the Executive was advised in writing, by way of this Agreement, to consult an attorney before signing this Agreement;

v. the Executive was advised that the Executive has twenty-one (21) calendar days from the date hereof within which to consider this Agreement before signing it and, in the event that the Executive signs this Agreement and returns it back to the Company during this time period, said signing constitutes a knowing and voluntary waiver of this time period, and the Executive understands that any changes to this Agreement, whether material or not, do not restart the twenty-one (21) day period; and

vi. the Executive has seven (7) calendar days after executing this Agreement within which to revoke this Agreement (the "Revocation Period"). If the seventh day is a weekend or national holiday, the Executive has until the next business day to revoke. If the Executive elects to revoke this Agreement, the Executive shall notify Leonard A. Crane, Vice President, Human Resources, in

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writing of the Executive's revocation. Any determination of whether the Executive's revocation was timely shall be determined by the date of actual receipt by Mr. Crane.

d. Non-Released Claims. In addition to claims expressly permitted by this Agreement or by law and claims or actions identified in Section 4(b), the general release in this Section 4 does not apply to:

   i. any claims relating to amounts described in Section 4 of this Letter Agreement, to the extent such were earned and vested as of the Separation Date, but not paid prior to the Separation Date;

   ii. any claims to require the Company to honor its commitments set forth in this Agreement;

   iii. any claims for unemployment compensation or workers' compensation; or

   iv. any claims to interpret or to determine the scope, meaning or effect of this Agreement.

e. Adequacy of Consideration. The Executive agrees that this Agreement (and, in particular, this Section 4) is supported by adequate consideration to which the Executive would otherwise not be entitled if the Executive did not sign this Agreement.

f. Cooperation. The Executive agrees that the Executive shall cooperate with the Releasees in the defense of any claim currently pending or hereinafter pursued against the Releasees without the payment of any additional compensation other than as set forth in this Agreement. American Water shall pay the Executive for all of the Executive's reasonable costs and expenses incurred in connection with such cooperation. In the case of legal proceedings, the Executive agrees to notify, in writing, the individual then holding the office of General Counsel, American Water Works Service Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ 08043, of any subpoena or other similar notice to give testimony or provide documentation within two (2) business days of receipt of the same and prior to providing any response thereto. Nothing in this Agreement shall preclude the Executive from participating in and fully cooperating with any governmental investigation.

g. Indemnification. The Company agrees to hold harmless and indemnify the Executive for any and all claims arising out of any lawsuits, charges of discrimination, or wage claims (the "Cases") for which the Executive would be indemnified if an executive of the Company, including reasonable attorney's fees, costs and damages and other related litigation expenses. To the extent the Executive was a covered insured by any Company insurance policy, nothing herein negates such coverage or indemnity provided by such policy. The Company's duty to indemnify and hold the Executive harmless shall not apply if the Executive fails to cooperate in the investigation or defense of the Cases or any other proceedings in which the Executive has been identified as a material witness. To the extent that it is necessary for the Executive to retain counsel other than the Company's counsel with respect to any matter, counsel shall be selected by the Company subject to approval by the Executive, which approval shall not be withheld unreasonably.

5. **Confidentiality**. Except as expressly permitted or required by this Agreement or by law and as set forth in Section 4(b), the Executive shall, at all times from and after the date hereof, keep all confidential and proprietary business information and trade secrets (as defined below) secret and confidential and shall not, directly or indirectly, disclose or use any of the confidential and proprietary business information and trade secrets.

a. Confidentiality. The Executive shall not at any time disclose the terms of this Agreement or the circumstances surrounding the Executive's separation from American Water with any person or entity except that the Executive may disclose information about either subject matter with the Executive's attorney, tax advisor or spouse/legal partner; provided, that the Executive's attorney, tax advisor or spouse/legal partner first agrees to maintain the confidentiality of any disclosed information as a condition to receiving the information. Notwithstanding the immediately preceding sentence, information regarding this Agreement which is publicly disclosed in an American Water press release or Company filing with the Securities and Exchange Commission shall not be subject to this restriction. Nothing contained in this Agreement shall preclude the Executive from cooperating fully with any governmental investigation.

b. Non-Disclosure of Confidential Information and Trade Secrets. The Executive acknowledges that as an executive of American Water, the Executive had access to and was entrusted with the Company's confidential and proprietary business information and trade secrets. The Executive represents and agrees that, at all times prior to the Separation Date, the Executive has maintained and, on and at all times subsequent to the Separation Date, the Executive will continue to maintain such information in strict confidence and has not disclosed, used, transferred or sold and will not disclose, use, transfer or sell (directly or indirectly) such information to any third party (except as may be required by law or legal process or, while Executive was employed by the Company, the disclosure of such was necessary or appropriate for Executive to perform the duties of Executive's employment with the Company) so long as such information or proprietary data remains confidential and has not been properly and lawfully disclosed or is not otherwise in the public domain.

c. Definition of "Confidential and Proprietary Business Information and Trade Secrets". For purposes of this Agreement, "confidential and proprietary business information and trade secrets" includes, but is not limited to, all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, training materials, forms and procedures, policies, customer or prospective customer lists, customer related data, marketing plans and strategies, financial information, attorney-client privileged communications, attorney work product, documents relating to any of the foregoing, and other written and oral materials (whether computerized or on hard copy) which are related to the business of the Company, its subsidiaries and its affiliates and the confidentiality of which the Company attempts to maintain with reasonable efforts and which the Company has not released to the general public.

6. **Return of Property**. The Executive shall immediately return to American Water any and all property of the Company, its subsidiaries and its affiliates in the Executive's possession, including (without limitation) all papers, documents, business plans, project pipeline information, correspondence, office passes, telephones, blackberry/iPhone or other mobile telecommunications devices, credit cards, electronic or digitally stored information, and computer equipment.

7. **Resignation**. The Executive shall sign letters of resignation effective as of the Separation Date where required to satisfy legal or governance requirements for such offices the Executive holds with the Company, its subsidiaries and its affiliates.

8. **Disparaging Statements**. Except as expressly permitted or required by this Agreement or by law and as set forth in Section 4(b), the Executive understands and agrees that as a condition for payment to the Executive of the consideration herein described, the Executive shall not make any false, disparaging or derogatory statements to any media outlet, industry group, financial institution, current, former or prospective employee or executive, consultant, vendor, client or customer of the Company regarding the Company or any of its directors, officers, employees, agents or representatives or about the Company's business affairs, information technology division, or financial condition. The Company shall not make any false, disparaging or derogatory statements to any media outlet, industry group, financial institution, current or prospective employer of the Executive regarding the Executive.

9. **Non-Admissions**. The Parties agree that this Agreement shall not in any way be construed as an admission by the Company, the Executive or the Releasees that any of them has acted wrongfully with respect to any matter whatsoever, including without limitation any matter relating to the Executive's employment or the termination thereof.

10. **Tax Withholding**. Notwithstanding any other provision of this Agreement, American Water shall, to the extent required by law, withhold applicable federal, state and local income and other taxes from any payments due to Executive hereunder. Executive shall be solely responsible for all taxes that result from Executive's receipt of the payments, benefits and distributions to be provided under this Agreement, and none of American Water nor any of its subsidiaries or affiliates makes nor have they made any representation, warranty or guarantee of any federal, state or local tax consequences to Executive of Executive's receipt of any payment, benefit or distribution hereunder, including, but not limited to, under section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

11. **Obligation to Cooperate**. Following the Separation Date, if, in connection with any investigation, governmental inquiry, threatened litigation or filed litigation involving the Company, Executive is called upon to assist the Company, to provide evidence, or testify in any manner, Executive agrees to fully cooperate with the Company, irrespective of whether such investigation, governmental inquiry, threatened litigation or filed litigation occurs during the Severance Period or thereafter. If requested by the Company, Executive agrees to be present and participate in the trial related to any such matter. Executive will, to the extent permitted by applicable law, be reimbursed for Executive's reasonable costs and expenses.

12. **Section 409A**. To the extent applicable, this Agreement is intended to comply with the applicable provisions of section 409A of the Code. Accordingly, all provisions herein are intended to be construed and interpreted to comply with section 409A of the Code or an exemption therefrom. Further, for purposes of section 409A of the Code, it is intended that each payment provided for hereunder, including each payment under a right to receive installment payments, be treated as a separate payment. Executive understands and agrees that none of the Company nor any of the other Releasees (i) have any obligation to indemnify or otherwise protect Executive from the obligation to pay any taxes pursuant to section 409A of the Code and (ii) makes or has made any representation, warranty or guarantee to Executive of compliance under section 409A of the Code.

13. **General Terms.**

a. Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient two (2) business days after the date when sent to the recipient by reputable express courier service (charges prepaid) or four (4) business days after the date when mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the Executive and to the Company at the addresses set forth below or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

If to Executive:

Kellye L Walker
1670 Cloverly Lane
Jenkintown, PA 19046

If to Company:

Walter J. Lynch
American Water Works Service Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

b. Modification. This Agreement sets forth the entire understanding of the Company and the Executive as to the subject matter contained herein and can be modified only by a writing signed by both the Executive and a duly authorized agent of American Water.

c. Entire Agreement. This Agreement constitutes the entire understanding and agreement between the Company and the Executive hereto with respect to severance payments and other payments described herein and the settlement of claims against the Company and cancels all previous oral and written negotiations, agreements, commitments and writings in connection therewith.

d. Assignment. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the Company and the Executive hereto.

e. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect, insofar as the foregoing can be accomplished without materially affecting the economic benefits anticipated by the parties to this Agreement. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

f. Counterparts. This Agreement may be executed in one or more counterparts, which shall, collectively or separately, constitute one agreement. Signatures delivered by facsimile (including, without limitation, by portable document format (“pdf”)) shall be effective for all purposes.

g. Choice of Law and Forum. This Agreement shall be governed by the substantive law of the State of New Jersey without regard to its conflict of law rules. The Company and the Executive consent to the exclusive jurisdiction of the courts of New Jersey to adjudicate any and all disputes arising between them and hereby waive any and all objections based on alleged lack of personal jurisdiction.

KLW Executive's Initials

The Company and the Executive have carefully read and understand all of the provisions of this Agreement. They enter into this Agreement freely, knowingly, and voluntarily. In entering into this Agreement, neither the Company nor the Executive is relying upon any representations or promises not expressly set forth in this Agreement. Intending to be legally bound to this Agreement, the Company's representative and the Executive sign their names below.

American Water Works Company, Inc.

By: /s/ Susan N. Story
Susan N. Story
President and Chief Executive Officer

Dated: 1/06/15 , 2015

American Water Works Service Company, Inc.

By: /s/ Walter J. Lynch
Walter J. Lynch
Chief Operating Officer, Regulated Operations

Dated: 1/6/15 , 2015

Executive

/s/ Kellye L. Walker
Kellye L. Walker

Dated: January 6 , 2015

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Section 5: EX-10.4 (EX-10.4)

Exhibit 10.4

AMERICAN WATER

February 17, 2015

Mr. Michael Sgro
131 Walnut Street
Jenkintown, PA 19046

Dear Mike:

On behalf of American Water, I am pleased to confirm your promotion to Senior Vice President, General Counsel reporting to Susan Story, President and Chief Executive Officer. The effective date of this promotion is February 17, 2015. We are confident that you will find your new position to be personally rewarding and one in which you can make significant contributions to the Company. The conditions of this promotion are as follows:

Compensation:

Effective with the promotion date, your new bi-weekly salary will be $14,423.08 and when annualized would be approximately $375,000. The new salary grade for your position will be ML3. Your job performance will be reviewed annually as part of our performance management system and you may be eligible for a merit increase in 2016.

Annual Incentive:

You will continue to be eligible to participate in the Company's Annual Incentive Plan (AIP). Effective on the date of your promotion, your AIP target bonus of 30% will increase to a 50% target bonus of your new annual base salary. Any amount awarded to you as a participant under the Annual Incentive Plan will be determined in accordance with the terms of the Plan. Your 2016 AIP will be prorated based upon your promotion date. Actual payout of the Annual Incentive Plan bonus is discretionary and based on factors including company performance and individual performance objectives.

Long Term Incentive:

You will continue to be eligible to receive an equity award under the Company's Long Term Incentive Plan (LTIP), if such an award is approved by the Compensation Committee of the American Water Board of Directors. Effective on the date of your promotion, your LTIP target bonus of 30% will increase to a target of 90% of your annual base salary. You will receive a communication shortly from the Company after the Compensation Committee approves an award for you.

Benefits:

Your current benefits will remain unchanged and in effect, including your current vacation accrual.

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1025 Laurel Oak Road, Voorhees, NJ 08043

You are entitled to the severance benefits provided under the Executive Severance Policy. The severance benefits are provided to executives whose employment is involuntarily terminated by American Water for reasons other than Cause. Under the policy, you will receive salary continuation benefits based on your pay grade, which would be 12 months of your base salary, plus a prorated Annual Incentive Plan bonus to the extent such a payment is provided under the terms of the Annual Incentive Plan. A copy of the Executive Severance Policy is provided to you with this offer.

We look forward to working with you and to the contributions you will continue make to American Water, as well as the opportunity to provide you with professional growth. If you have questions, please contact me at 856-782-3659.

Once you have reviewed the offer please sign below and return a copy to me. Your signature will indicate your acceptance of our offer of employment as outlined in this letter.

Sincerely,

/s/ BJ Holdnak

Brenda (BJ) Holdnak
Vice President, Human Resources
American Water
1025 Laurel Creek Road
Voorhees, New Jersey 08043

I, Employee Name, understand that my employment will be "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

/s/ Michael Sgro 2/18/15
Signature Michael Sgro

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Section 6: EX-10.5 (EX-10.5)

Exhibit 10.5

AMERICAN WATER

Susan N. Story
President and Chief Executive Officer
1025 Laurel Oak Road
Voorhees, NJ 08043

December 12, 2014

Via E-mail (holdnakdrbj@gmail.com)
and U.S. Mail
Brenda J. Holdnak, Ph.D.
4 Valcourt Circle
Simpsonville, SC 29680

Dear BJ:

I am pleased to extend an offer of employment to you for the position of Vice President Human Resources on behalf of American Water Works Service Company, Inc. ("American Water" or the "Company"), a subsidiary of American Water Works Company, Inc. This position will report directly to me in my capacity as President and Chief Executive Officer. Your expected first day of employment will be January 19, 2015. We anticipate that you will find this new role to be personally rewarding and one in which you can make significant contributions to the Company. The following represents American Water's offer to you:

Term of Employment: You will be employed full time as an exempt employee for a term of two (2) years from January 19, 2015 to January 20, 2017, subject to the satisfactory performance of your duties, and will voluntarily terminate your employment and transition your duties at the conclusion of the term. You will not be eligible for any severance under the Company's policies during or following the term of your employment.

Salary: You will be paid bi-weekly at the rate of $12,500.00, which is approximately $325,000.00 annualized. The salary grade for your position will be ML3b. Your job performance will be reviewed annually as part of American Water's performance management system and you may be eligible to receive a merit increase annually beginning in 2016.

Annual Incentive Plan Bonus: You will be eligible to participate in the Company's Annual Incentive Plan and eligible to receive a target bonus of 50% of your annual base salary. Actual payout of the Annual Incentive Plan bonus occurs in March of each year and is discretionary and is based on specified written factors including company performance and your job performance.

Long Term Incentive Plan Award: You will not be eligible to participate in the Company's Long Term Incentive Plan and will not be eligible to receive any award under this plan.

Qualified Defined Contribution/401(k) Savings Plan: You will be eligible to participate in the Company's 401(k) Savings Plan upon your hire date. The Company will match 100% on the first 3% of your base pay plus 50% on the next 2% of your eligible compensation (e.g., Base Pay plus Bonus). In addition to your contributions and the Company's match, the Company will make an annual non-elective contribution to your 401(k) Savings Plan account of 5.25% of your base salary up to $265,000 (IRS pay limitation for 2015 and indexed annually) that will vest after one (1) year of service.

Non-Qualified Saving and Deferred Compensation Plan: You will be not be eligible for the Company's non-qualified executive defined contribution (i.e., the 5.25% Defined Contribution); however, beginning January 1, 2016, you are eligible to elect to make a Deferral Contribution on a portion of your base pay and bonus and receive the Company's Match on eligible Deferral Contributions.

Relocation and Annual Housing Allowing: In lieu of the full relocation benefit offered by the Company, you will be paid an annual housing allowance of $50,000 that will be made in equal installments on a bi-weekly basis subject to applicable taxes and withholdings. The foregoing notwithstanding, you also will be eligible to utilize the Company's relocation services through its vendor, NEI, for the purposes of assisting with finding suitable accommodations and the related services.

Benefits: American Water offers a comprehensive benefits package, which includes medical, dental, vision, life, short-term and long-term disability insurance coverage. You will be eligible to enroll in the Company's health care plans to receive these benefits after completing one (1) full calendar month of employment.

Vacation: You will be eligible for 20 vacation days and 5 floating holidays per calendar year. Vacation will be prorated based on your hire date.

This offer is contingent upon satisfactory background check results, verification of your eligibility to work in the United States, verification of all information supplied on your résumé and employment application, and the absence of any Non-Compete or Non-Solicitation Agreement with a prior employer.

Also, as a condition of employment, you will be required to pass a drug screen and background check. The test is administered by Aurico, a third party contractor who will reach out to you on the Company's behalf to initiate the process.

Once you have reviewed the offer, please sign below and return a copy to me. Your signature will indicate your acceptance of American Water's offer of employment as outlined in this letter.

I look forward to working with you and to the contributions you will make to American Water, as well as the opportunity to provide you with professional growth.

Sincerely,

Susan Story

Susan Story
President and Chief Executive Officer

Enclosure

I, Brenda J. Holdnak, Ph.D. understand that my employment will be "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

Brenda J. Holdnak, Ph.D. ______________________ Date ______________________

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Section 7: EX-10.6 (EX-10.6)

Exhibit 10.6

Severance Agreement and General Release

This Severance Agreement and General Release (the “Agreement”) dated December 22, 2014 is made and entered into by Leonard Crane (the “Executive”) and American Water Works Service Company, Inc. (“American Water” or the “Company”). As used herein any reference to the “Company” shall mean American Water Works Company, Inc., American Water Works Service Company, Inc., and all of their respective divisions, parents, subsidiaries, affiliates or related companies, their past, present and future officers, directors, shareholders, benefit plans, insurers, attorneys, legal representatives, employees and agents and all of their respective heirs, executors, administrators, successors and assigns, or any other persons and/or entities through which American Water has acted with respect to the Executive.

RECITALS

WHEREAS, the Executive is employed by the Company as Vice President Human Resources of American Water Works Service Company, Inc.;

WHEREAS, the Executive’s employment will be terminated on January 16, 2015;

WHEREAS, the Executive’s continued assistance is needed to effectuate an orderly transition;

WHEREAS, without admission of liability on the part of either of the Executive or the Company (herein, the “Parties”), the Parties desire to establish terms for a transition, to resolve amicably the Executive’s separation from employment, and to establish the terms of a severance agreement and release of claims; and

WHEREAS, the Executive is advised that the Executive has twenty-one (21) days to consider this Agreement, that the Executive is advised to consult with the Executive’s own attorney prior to signing this Agreement, and that the Executive may revoke the Agreement for a period of seven (7) days after signing it and the Agreement shall not be effective or enforceable until the expiration of the seven (7) day revocation period.

NOW, THEREFORE, in consideration of the promises and conditions set forth herein, the sufficiency of which is hereby acknowledged, the Company and the Executive agree as follows:

1. **Transition and Separation From Employment.**
    a. Transition. The Executive will facilitate a transition from the date hereof through midnight on January 16, 2015 (the “Transition Period”).
        i. During the Transition Period, the Executive’s physical presence in the office will be required to perform the transition tasks as defined below in Section 1.a.ii. unless otherwise instructed by the President and Chief Executive Officer of the Company or her designee.
        ii. During the Transition Period, the Executive shall perform and make reasonable good faith efforts to complete tasks and assignments specified by the President and Chief Executive Officer of the Company or her designee and to effect an orderly transition. Specifically, the Executive shall be responsible for those tasks and activities set forth in Exhibit A hereof (the “Transition Tasks”).
        iii. During the Transition Period and thereafter the Executive shall be available to answer questions and provide assistance on matters for which the Executive has knowledge or relevant information.
    b. Separation From Employment Date. The Executive’s employment with American Water shall be terminated effective January 16, 2015 (the “Separation From Employment Date”). The Executive will be paid through and including the Separation Date, will continue to be covered under American Water’s group health insurance plan through the Separation From Employment Date, and will be paid for any unused accrued vacation days as of the Separation From Employment Date.

2. **Severance; Conditions of Receipt and Timing.** In return for the execution and nonrevocation of the Agreement and the good faith performance by the Executive of the Executive's obligations described in this Agreement and provided that the Executive signs the Agreement within twenty-one (21) days from December 22, 2014 and signs the release of claims attached hereto at Exhibit B on or after the Separation From Employment Date, but no later than twenty-one (21) days after the Separation From Employment Date, the Company agrees to provide the Executive with the following compensation and benefits:

a. Severance. American Water shall pay to the Executive a severance of $230,000 (the equivalent of twelve (12) months of pay at the Executive's current salary) (the "Severance Payments"). The Severance Payments will be paid to the Executive in biweekly installments in the Company's regular payroll cycle over the twelve (12) month period following the Separation From Employment Date (the "Severance Period"), subject to all applicable federal, state and local taxes and deductions in accordance with American Water's normal payroll practices.

b. Group Health Insurance. The Executive may, at the Executive's option, continue to participate in American Water's group health insurance plan pursuant to the federal Consolidated Omnibus Budget Reconciliation Act ("COBRA"). American Water will pay all COBRA premiums and related costs for the Executive for twelve (12) months following the Executive's Separation From Employment Date. Thereafter, the Executive and any eligible dependents will be entitled to continue health care coverage at the Executive's sole expense for the remaining balance of the COBRA coverage period. The Executive's right to COBRA health care continuation will be set forth in a separate letter. If the Executive elects not to participate in the Company's group health insurance plan or if the Executive fails to make timely monthly contributions (as this term is defined in the COBRA documentation that shall be provided the Executive), the Executive shall lose all eligibility for continued participation in the Company's group health insurance plan.

c. AIP Award. The Executive will be eligible to receive a 2014 Annual Incentive Plan ("AIP") award if such an AIP award is paid out to eligible participants. The amount for the AIP award shall be calculated from January 1, 2014 to December 31, 2014 at 45% of $230,000 and adjusted by the Corporate Multiplier. The AIP award, if such an award is paid, shall be payable to the Executive in its entirety in a lump sum, less applicable withholdings, at the same time as other AIP awards are distributed to other executives of the Company. The Executive shall receive no other AIP award.

d. Long Term Incentive Plan. The Executive shall have ninety (90) days from the Separation From Employment Date to exercise any vested stock options granted to the Executive pursuant to the Company's Long Term Incentive Plans (the "LTIP") under which the Executive received benefits. Any stock option, restricted stock unit, or performance stock unit not vested on or before the Separation From Employment Date will be forfeited. The Executive shall receive no other LTIP award.

e. Transition Bonus. In recognition of and appreciation for the Executive's agreement to continue his employment and to assist in transitioning his duties as described in Section 1 until a successor is named, the Company shall pay the Employee a special bonus of $25,000 ("Transition Bonus") subject to all applicable federal, state and local taxes and deductions in accordance with American Water's normal payroll practices. Such Transition Bonus shall be payable to the executive within ten (10) days following the Separation From Employment Date.

f. Life Insurance. During the Severance Period, the Executive shall continue to participate in any employee or executive life insurance plan sponsored by the Company under which the Executive was covered as of the Separation From Employment Date, subject to the same terms and conditions as are applicable to then current active employees or executives of the Company during the Severance Period.

g. Retirement Benefits. The Executive will be entitled to all vested retirement benefits, if any, to which the Executive is entitled pursuant to the terms of the Company's retirement plans.

h. Employee Assistance Program. The Executive shall continue to be eligible to participate in the American Water Employee Assistance Program following the Separation From Employment Date subject to the same terms and conditions as are applicable to then current active employees and executives of the Company during the Severance Period.

i. Outplacement Services. American Water will provide the Executive twelve (12) months of outplacement services following the Separation From Employment Date through a designated provider arranged by the Company to assist the Executive in obtaining other employment. The parties agree that the designated provider shall be Career Concepts and that Career Concepts shall provide executive level outplacement services. The Executive will be provided direction on accessing outplacement services in a separate letter following the execution and non-revocation of this Agreement and Exhibit B.

j. Conditions of Receipt and Timing. The Executive shall not be entitled to receive the Severance Payments, the Company-paid COBRA premiums, the AIP award, the LTIP, Transition Bonus, the life insurance, the outplacement services, or continued access to the American Water Employee Assistance Program unless and until the Executive signs this Agreement, the Executive signs the attached Exhibit B, and the seven (7)-day Revocation Period referenced in Section 4(c)(vi) below expires without the Executive having exercised the Executive's right of revocation. Provided that this Agreement and Exhibit B are signed, and are not revoked, the Severance Payments and the benefits described herein will be made to the Executive consistent with the terms in Section 2a.

3. **Confidentiality; Non-Disclosure; Return of Property, Disparaging Statements, and References.**

a. Confidentiality. The Executive shall not at any time disclose the terms of this Agreement or the circumstances surrounding the Executive's separation from employment with American Water with any person or entity except that the Executive may disclose information about either subject matter with the Executive's attorney, tax advisor or spouse/legal partner provided that the Executive's attorney, tax advisor or spouse/legal partner first agrees to maintain the confidentiality of any disclosed information as a condition of receiving the information. The Executive may also disclose the terms of this Agreement to the extent necessary to apply for unemployment compensation benefits. Nothing contained in this Agreement shall preclude the Executive from cooperating fully with any governmental investigation.

b. Non-Disclosure of Confidential Information and Trade Secrets. The Executive acknowledges that as an employee of American Water the Executive had access to and was entrusted with the Company's confidential and proprietary business information and trade secrets. At all times prior to, during, and following the Executive's separation from employment with American Water, the Executive represents that the Executive has maintained and agrees that the Executive will continue to maintain such information in strict confidence and has not disclosed, used, transferred or sold and will not disclose, use, transfer or sell (directly or indirectly) such information to any third party (except as may be required by law or legal process) so long as such information or proprietary data remains confidential and has not been properly and lawfully disclosed or is not otherwise in the public domain.

c. Definition of' Confidential and Proprietary Business Information and Trade Secrets". For purposes of this Agreement, "confidential and proprietary business information and trade secrets" includes, but is not limited to, all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, books, training materials, forms and procedures, policies, customer or prospective customer lists, customer related data, marketing plans and strategies, financial information, documents relating to any of the foregoing, and other written and oral materials (whether computerized or on hard copy) which are related to the business of the Company and the confidentiality of which the Company attempts to maintain with reasonable efforts and which the Company has not released to the general public.

d. Return of Property. The Executive shall immediately return to American Water (and shall not retain any copies of) any and all property of the Company in the Executive's possession, including (without limitation) all papers, documents, business plans, project pipeline information, correspondence, office pass, telephones, blackberry, credit cards, electronic or digitally stored information, and computer equipment, and copies thereof on the Separation From Employment Date.

e. Disparaging Statements. The Executive agrees that the Executive will not make any statements or comments that would tend to disparage or would be detrimental to the Company.

f. References. The Executive agrees that all requests for references from prospective employers will be directed solely to the attention of Melanie Kennedy, Senior Director Human Resources, American Water Works Service Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ 08043, melanie.kennedy@amwater.com. Upon any request for a reference, Ms. Kennedy will solely confirm the Executive's dates of employment with American Water, positions the Executive held with American Water, the Executive's last salary earned with American Water and that the Executive's employment ended on January 16, 2015.

g. Taxes. As required by law, the Company will issue the appropriate IRS Form(s) at the appropriate time. Any payments provided for herein shall be reduced by any amounts required to be withheld by the Company from time to time under applicable federal, state or local income or employment tax laws or similar statutes or other provisions oflaw then in effect. The Executive agrees that (i) the Executive shall be solely responsible for all taxes, including, but not limited to, income and excise taxes, imposed on the Executive in respect of amounts paid to the Executive by the Company under this Agreement; and (ii) the Executive shall not seek reimbursement from the Company for such taxes.

Leonard Crane's Initials

h. Internal Revenue Code Section 409A Exception. The Company has informed Executive that the Executive qualifies for an exception from Section 409A of the Internal Revenue Code ("Section 409A") that applies to separation pay plans, such as described herein, and as a result the Executive is not subject to a six (6) month payment delay for a "specified employee" as that term is defined under Section 409A. The Company agrees that should the Internal Revenue Service deem any payments hereunder to constitute deferred compensation for purposes of Section 409A, the Company agrees to indemnify the Executive for any penalties, interest, attorneys' fees and other costs that may result from violation of Section 409A.

i. Enforcement. The parties hereto agree and acknowledge that they may seek enforcement of this Agreement in any state or federal court of competent jurisdiction in the state of New Jersey. The parties hereto further consent to enforcement of any order or directive enforcing this Agreement from any court, whether in New Jersey or elsewhere, by any other state or federal court in which any party hereto may seek enforcement of any such order or directive and that the parties shall not oppose application of full faith and credit principles to the ruling of one court by another court.

4. **General Release of Legal Claims; Agreement Not to Sue; Adequacy of Consideration; Cooperation; Claims with Government Agencies.**

a. General Release of Legal Claims. The Executive (on behalf of the Executive and the Executive's heirs, successors, assigns and representatives) hereby agrees to unconditionally and irrevocably release and discharge, to the maximum extent permitted by law, the Company from any and all claims or causes of action, suits, and demands whatsoever in law or in equity, known or unknown, arising out of or in any way connected with, or relating to any event, matter or occurrence existing or occurring before you sign this Agreement, including, but not limited to:

i. any Claims relating to the Executive's employment with or separation of employment from the Company;

ii. any statutory, regulatory, common-law or other claims of any kind, including, but not limited to, breach of contract claims (whether written or oral, express or implied), tort claims, public policy claims, defamation claims, retaliation claims, wrongful discharge claims, claims for emotional distress or pain and suffering and claims of fraud or misrepresentation;

iii. any claims for attorneys' fees or costs;

iv. any discrimination, retaliation or harassment claims including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, as amended, the Employee Retirement Income Security Act of 1974, as amended, the Americans With Disabilities Act ("ADA"), as amended, the New Jersey Constitution, the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, the New Jersey Millville Dallas Airmotive Plant Job Loss Notification Act, and any other claims protected by federal, state or local laws;

v. any claims under any federal, state or local whistle-blower laws;

vi. any claims regarding leaves of absence, including, but not limited to, claims under the Family and Medical Leave Act or any federal, state or local law or statute relating to leave;

vii. any claims for unpaid or withheld wages, severance, benefits, bonuses, commissions and/or other compensation of any kind, including, but not limited to, claims under any applicable federal, state or local laws;

viii. any claims under the Age Discrimination in Employment Act of 1967, as amended by the Older Workers Benefit Protection Act, and any applicable federal, state or local laws;

ix. any claims for health and welfare benefits including, but not limited to, life insurance, accidental death & disability insurance, sick leave or other employer provided plans or programs for group health insurance coverage (excluding claims for COBRA continuation coverage);

x. any claims under any federal, state or local military leave laws, including the Uniformed Services Employment and Reemployment Rights Act;

xi. any claims under the Occupational Safety and Health Act;

xii. any claims under the federal Worker Adjustment and Retraining Notification Act or state law equivalent statutes;

xiii. any claims under the Fair Credit Reporting Act;

xiv. any claims under the National Labor Relations Act;

Leonard Crane's Initials

xv. any claims under the Sarbanes-Oxley Act; or

xvi. any other claims relating to the Executive's hire, employment, or separation thereof.

b. Scope of General Release. The Executive hereby acknowledges and agrees that this general release includes all claims the Executive ever had, now has or which the Executive's heirs, agents, executors or assigns, or any of them, hereafter can, shall or may have, for or by reason of any cause, matter or thing whatsoever arising at any time up to and including the date that the Executive signs this Agreement.

c. Waiver of Claims under the Age Discrimination in Employment Act. The Executive acknowledges and agrees that the Executive is waiving any claims under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act, and that:

i. the Executive is receiving consideration which is in addition to anything of value to which the Executive otherwise would have been entitled; and

ii. the Executive fully understands the terms of this Agreement and the Executive enters into it voluntarily without any coercion on the part of any person or entity; and

iii. the Executive was given adequate time to consider all implications and to freely and fully consult with and seek the advice of whomever the Executive deemed appropriate and has done so; and

iv. the Executive was advised in writing, by way of this Agreement, to consult an attorney before signing this Agreement; and

v. the Executive was advised that the Executive has twenty-one (21) calendar days from December 22, 2014 within which to consider this Agreement before signing it and, in the event that the Executive signs this Agreement and returns it back to the Company during this time period, said signing constitutes a knowing and voluntary waiver of this time period, and the Executive understands that any changes to this Agreement, whether material or not, do not restart the twenty-one (21) day period; and

vi. the Executive has seven (7) calendar days after executing this Agreement within which to revoke this Agreement (the "Revocation Period"). If the seventh day is a weekend or national holiday, the Executive has until the next business day to revoke. If the Executive elects to revoke this Agreement, the Executive shall notify Melanie Kennedy, Senior Director Human Resources, American Water Works Service Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ 08043, melanie.kennedy@amwater.com in writing of the Executive's revocation. Any determination of whether the Executive's revocation was timely shall be determined by the date of actual receipt by Ms. Kennedy.

d. Non-Released Claims. The general release in this Section 4 does not apply to:

i. any claims for vested benefits under any Company retirement, 401 (k), profit sharing or other deferred compensation plan;

ii. any claims to require the Company to honor its commitments set forth in this Agreement;

iii. any claims for unemployment compensation or workers' compensation; or

iv. any claims to interpret or to determine the scope, meaning or effect of this Agreement.

e. Adequacy of Consideration. The Executive agrees that this Agreement (and, in particular, this Section 4) is supported by adequate consideration to which the Executive would otherwise not be entitled if the Executive did not sign this Agreement.

f. Cooperation. The Executive agrees that the Executive shall cooperate with the Company in the defense of any claim currently pending or hereinafter pursued against the Company on any matter that arose during the Executive's employment as Vice President Human Resources for American Water Works Service Company, Inc. without the payment of any additional compensation other than as set forth in this Agreement. American Water shall pay the Executive for all of the Executive's reasonable costs and expenses incurred in connection with such cooperation. In the case of legal proceedings, the Executive agrees to notify, in writing, the individual then holding the office of General Counsel, American Water Works Service Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ 08043, of any subpoena or other similar notice to give testimony or provide documentation within two (2) business days of receipt of the same and prior to providing any response thereto. Nothing in this Agreement shall preclude the Executive from participating in and fully cooperating with any governmental investigation.

g. Indemnification. The Company agrees to defend, hold harmless, and indemnify the Executive for any and all claims arising from and/or in any way related to Executive’s employment with American Water, including but not limited to reasonable attorney’s fees, costs and damages and other related litigation expenses, for any and all claims arising out of any lawsuits, charges of discrimination, or wage claims (the “Cases”) for which the Executive would be indemnified if an executive of the Company. To the extent the Executive was a covered insured by any Company insurance policy, nothing herein negates such coverage or indemnity provided by such policy except Executive’s refusal to cooperate as defined in Section 4 (t) above. The Company’s duty to defend, indemnify, and hold the Executive harmless shall not apply ifthe Executive fails to cooperate in the investigation or defense of the Cases or any other proceedings in which the Executive has been identified as a material witness. To the extent that it is necessary for the Executive to retain counsel other than the Company’s counsel with respect to any matter, counsel shall be selected and paid by the Company subject to approval by the Executive, which approval shall not be withheld unreasonably.

h. Claims with Government Agencies. Nothing in this Agreement shall be construed to prevent the Executive from filing a charge with, or participating in an investigation conducted by, any governmental agency, including, without limitation, the United States Equal Employment Opportunity Commission (EEOC), or applicable state/city fair employment practices agency, to the extent required or permitted by law. Nevertheless, the Executive gives up the right to receive any monetary relief whatsoever, including but not limited to financial benefit or monetary recovery from any lawsuit filed or settlement reached by the EEOC, applicable state/city fair employment practices agency, or anyone else with respect to any claims released and waived in this Agreement. Additionally, after entering into this Agreement, the Executive agrees to give up the right to receive any financial benefit or monetary recovery whatsoever resulting from any lawsuit against the Company that the Executive initiated, sponsored or in which the Executive participated.

i. General Release by American Water. American Water hereby agrees to unconditionally and irrevocably release and discharge, to the maximum extent permitted by law, the Executive from any and all claims or causes of action, suits, and demands whatsoever in law or in equity, known or unknown, arising out of or in any way connected with, or relating to any event, matter or occurrence existing or occurring before the Company signs this Agreement, including but not limited to any claims arising from and/or in any way related to Executive’s employment with American Water so long as such conduct was not criminal or in violation of American Water’s policies and practices existing on or before the Executive’s Separation From Employment Date, including but not limited to American Water’s Code of Ethics Policy.

5. **Acknowledgements Concerning Compensation.** The Executive acknowledges and agrees that the payments set forth above shall constitute the total amount owed by the Company, and that the Executive has (i) received all wages and compensation owed through the Separation From Employment Date, (ii) been paid by the Company for all hours the Executive has worked for the Company, and that the Executive is in receipt of all other amounts due from the Company through the Separation From Employment Date, including but not limited to, all wages, payments, bonuses, benefits, pay in lieu of notice, salary continuation or severance, compensation, or any other remuneration of whatever kind arising from or relating to the Executive’s employment or the termination of the Executive’s employment with American Water, except for the payments and benefits expressly provided for under this Agreement, and (iii) the Executive has not suffered any on-the-job injury for which the Executive has not already filed a claim.

6. **General Terms.**

a. Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, two (2) business days after the date when sent to the recipient by reputable express courier service (charges prepaid) or four (4) business days after the date when mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the Executive and to the Company at the addresses set forth below

If to Executive:

Leonard Crane
2041 Fitzwater Street
Philadelphia, PA 19146

If to Company:

Office of General Counsel
1025 Laurel Oak Road
Voorhees, NJ 08043

or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

b. Modification. This Agreement sets forth the entire understanding of the Company and the Executive as to the subject matter contained herein and can be modified only by a writing signed by both the Executive and a duly authorized agent of American Water.

c. Entire Agreement. This Agreement constitutes the entire understanding and agreement between the Company and the Executive hereto with respect to severance payments and other benefits described herein and the settlement of claims against the Company and cancels all previous oral and written negotiations, agreements, commitments and writings in connection therewith.

d. Assignment. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the Company and the Executive hereto.

e. Interpretation of Agreement. If any provision of this Agreement or application thereof to anyone under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction.

f Choice of Law and Forum. This Agreement shall be governed by the substantive law of the state of New Jersey without regard to its conflict of law rules. The Company and the Executive consent to the exclusive jurisdiction of the courts of New Jersey to adjudicate any and all disputes arising between them and hereby waive any and all objections based on alleged lack of personal jurisdiction.

The Company and the Executive have carefully read and understand all of the provisions of this Agreement. They enter into this Agreement freely, knowingly, and voluntarily. In entering into this Agreement, neither the Company nor the Executive is relying upon any representations or promises not expressly set forth in this Agreement. Intending to be legally bound to this Agreement, the Company's representative and the Executive sign their names below.

Walter Lynch
Chief Operating Officer, Regulated Operations
American Water Works Service Company, Inc.

Dated: ______, 2015

Leonard Crane

Dated: 1 – 16, 2015

______ Leonard Crane's Initials

EXHIBIT A

TRANSITION TASKS

The Executive shall continue to guide and oversee the following activities to completion during the Transition Period:

1. Ensure the continuation of existing HR projects and activities
2. Ensure the continued transition of key staff in new roles within HR
3. Address HR issues that may arise during the period
4. Participate with the executive leadership team on critical company issues

EXHIBIT B

In consideration of the promises made in the AGREEMENT AND GENERAL RELEASE entered into between Leonard Crane (the "Executive") and American Water Works Service Company, Inc. (the "Company"), the Executive does hereby REMISE, RELEASE AND FOREVER DISCHARGE the Company, its officers, directors, employees, agents, attorneys, predecessors, successors and assigns (the "Releasees") from all actions, suits, claims and demands in law or equity that the Executive ever had, now has, or hereafter may have, from the beginning of time to the date of this Agreement, whether known or unknown, suspected or unsuspected. This release includes but is not limited to all claims arising under Title VII of the Civil Rights Act of 1964, Sections 1981 through 1988 of Title 42 of the United States Code, the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Equal Pay Act, the United States Constitution, the Employee Retirement Income Security Act, the Americans with Disabilities Act, the National Labor Relations Act, the Occupational Safety and Health Act, the Immigration Reform and Control Act, Executive Orders 11246 and 11141, the Sarbanes-Oxley Act, the Worker Adjustment Protection Act of 1990, the Fair Credit Reporting Act, the Genetic Information Nondiscrimination Act, the Uniformed Services Employment and Reemployment Rights Act, the Employee Polygraph Protection Act, the New Jersey Constitution, the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, the New Jersey Millville Dallas Airmotive Plant Job Loss Notification Act, and any other federal, state or local law or ordinances, or any common law claim under tort, contract or any other theories now or hereafter recognized, as amended where applicable. This release also includes claims which the Executive may have for any type of damages cognizable under any of the laws referenced herein, including, but not limited to, any and all claims for compensatory damages, punitive damages, and attorneys' fees and costs. The Executive shall not bring a lawsuit against any of the Releasees for any of the claims described above. Should any entity, agency, commission, or person file a charge, action, complaint or lawsuit against the Releasees based upon any of the above-released claims, the Executive agrees not to seek or accept any resulting relief whatsoever. The Executive also agrees that this release should be interpreted as broadly as possible to achieve the Executive's intention to waive all Claims which the Executive may have against the Releasees. The Executive acknowledges that the benefits made available to the Executive have been explained to the Executive by the Company and are due consideration in exchange for release of claims listed in Section 4 of the Agreement. Notwithstanding anything to the contrary herein, nothing in this Agreement shall impact or otherwise affect the Executive's rights under, and to enforce, this Agreement. The Executive is advised that the Executive has at least twenty-one (21) calendar days to consider this General Release, that the Executive is advised to consult with the Executive's own attorney prior to signing this General Release and that the Executive may revoke the General Release within a period of seven (7) days after signing and the General Release shall not be effective or enforceable until the expiration of the seven (7) day revocation period. American Water hereby agrees to unconditionally and irrevocably release and discharge, to the maximum extent permitted by law, the Executive from any and all claims or causes of action, suits, and demands whatsoever in law or in equity, known or unknown, arising out of or in any way connected with, or relating to any event, matter or occurrence existing or occurring before the Company signs this Agreement, including but not limited to any claims arising from and/or in any way related to Executive's employment with American Water so long as such conduct was not criminal or in violation of American Water's policies and practices existing on or before the Executive's Separation From Employment Date, including but not limited to American Water's Code of Ethics Policy.

Walter Lynch
Chief Operating Officer, Regulated Operations
American Water Works Service Company, Inc.

Dated: ____________________, 2015

Leonard Crane

Dated: 1 – 16, 2015

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Section 8: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

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Section 9: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, I, Linda G. Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 10: EX-32.1 (EX-32.1)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and exchange Commission on the date hereof (the "Report"), I, Susan N. Story, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

August 5, 2015

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Section 11: EX-32.2 (EX-32.2)

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and exchange Commission on the date hereof (the "Report"), I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

August 5, 2015

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AWK 10-Q 9/30/2015

Section 1: 10-Q (10-Q)

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 September 30, 2015

OR

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

For the transition period from __________to ___________

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

Class	Outstanding at October 30, 2015
Common Stock, $0.01 par value per share	**179,469,453 shares** **(excludes 1,284,912 treasury shares at October 30, 2015)**

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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)

	September 30, 2015	December 31, 2014
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $4,219,736 at September 30 and $3,991,680 at December 31	$ 13,468,478	$ 12,899,704
Nonutility property, net of accumulated depreciation of $262,480 at September 30 and $248,341 at December 31	137,032	129,592
Total property, plant and equipment	13,605,510	13,029,296
Current assets		
Cash and cash equivalents	75,224	23,080
Restricted funds	23,480	13,859
Accounts receivable	341,686	267,053
Allowance for uncollectible accounts	(36,593)	(34,941)
Unbilled revenues	289,577	220,538
Income taxes receivable	1,093	2,575
Materials and supplies	37,965	37,190
Deferred income taxes	114,796	86,601
Other	31,781	45,414
Total current assets	879,009	661,369
Regulatory and other long-term assets		
Regulatory assets	1,230,633	1,153,429
Restricted funds	8,694	8,958
Goodwill	1,312,888	1,208,043
Other	68,439	69,861
Total regulatory and other long-term assets	2,620,654	2,440,291
TOTAL ASSETS	$ 17,105,173	$ 16,130,956

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, 2015	December 31, 2014
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 180,677 shares issued at September 30 and 179,462 at December 31)	$ 1,807	$ 1,795
Paid-in-capital	6,348,609	6,301,729
Accumulated deficit	(1,049,665)	(1,295,549)
Accumulated other comprehensive loss	(79,175)	(81,868)
Treasury stock	(56,124)	(10,516)
Total common stockholders' equity	5,165,452	4,915,591
Long-term debt	5,940,615	5,432,744
Redeemable preferred stock at redemption value	14,286	15,501
Total capitalization	11,120,353	10,363,836
Current liabilities		
Short-term debt	379,944	449,959
Current portion of long-term debt	22,023	61,132
Accounts payable	281,291	285,800
Taxes accrued	46,336	24,505
Interest accrued	97,038	56,523
Other	338,755	363,079
Total current liabilities	1,165,387	1,240,998
Regulatory and other long-term liabilities		
Advances for construction	349,591	367,693
Deferred income taxes	2,375,856	2,120,739
Deferred investment tax credits	24,001	25,014
Regulatory liabilities	395,313	391,782
Accrued pension expense	317,927	316,368
Accrued postretirement benefit expense	189,692	192,502
Other	54,391	37,152
Total regulatory and other long-term liabilities	3,706,771	3,451,250
Contributions in aid of construction	1,112,662	1,074,872
Commitments and contingencies (See Note 9)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 17,105,173	$ 16,130,956

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)

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
Operating revenues	$ 896,206	$ 846,169	$ 2,376,405	$ 2,279,950
Operating expenses				
Operation and maintenance	363,610	341,348	1,024,066	1,004,377
Depreciation and amortization	111,196	106,789	327,496	318,398
General taxes	60,292	60,807	184,210	178,276
Gain on asset dispositions and purchases	(175)	(60)	(2,512)	(616)
Total operating expenses, net	534,923	508,884	1,533,260	1,500,435
Operating income	361,283	337,285	843,145	779,515
Other income (expenses)				
Interest, net	(77,636)	(75,445)	(228,730)	(222,673)
Allowance for other funds used during construction	3,571	2,805	8,766	7,064
Allowance for borrowed funds used during construction	2,168	1,570	6,232	4,324
Amortization of debt expense	(2,112)	(1,669)	(5,754)	(4,971)
Other, net	(189)	(733)	555	(2,591)
Total other income (expenses)	(74,198)	(73,472)	(218,931)	(218,847)
Income from continuing operations before income taxes	287,085	263,813	624,214	560,668
Provision for income taxes	113,191	107,205	247,202	224,773
Income from continuing operations	173,894	156,608	377,012	335,895
Loss from discontinued operations, net of tax	—	(4,423)	—	(6,288)
Net income	$ 173,894	$ 152,185	$ 377,012	$ 329,607
Other comprehensive income (loss), net of tax:				
Pension amortized to periodic benefit cost:				
Prior service cost, net of tax of $25 and $26 for the three months and $75 and $79 for the nine months, respectively	39	41	117	124
Actuarial loss (gain), net of tax of $833 and $(4) for the three months and $2,497 and $(14) for the nine months, respectively	1,302	(7)	3,906	(22)
Foreign currency translation adjustment	(482)	(490)	(1,388)	(594)
Unrealized gain (loss) on cash flow hedge, net of tax of $10 and $(439) for the three months and $31 and $(439) for the nine months, respectively	19	(815)	58	(815)
Total other comprehensive income (loss), net of tax	878	(1,271)	2,693	(1,307)
Comprehensive income	$ 174,772	$ 150,914	$ 379,705	$ 328,300
Basic earnings per share: (a)				
Income from continuing operations	$ 0.97	$ 0.87	$ 2.10	$ 1.88
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)	$ 0.00	$ (0.04)
Net income	$ 0.97	$ 0.85	$ 2.10	$ 1.84
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.96	$ 0.87	$ 2.09	$ 1.87
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)	$ 0.00	$ (0.03)
Net income	$ 0.96	$ 0.85	$ 2.09	$ 1.83
Average common shares outstanding during the period				
Basic	179,578	178,992	179,534	178,800
Diluted	180,353	179,948	180,346	179,723
Dividends declared per common share	$ 0.34	$ 0.62	$ 0.68	$ 0.93

(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)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 377,012	$ 329,607
Adjustments to reconcile to net cash flows provided by operating activities		
Depreciation and amortization	327,496	319,050
Deferred income taxes and amortization of investment tax credits	236,015	212,079
Provision for losses on accounts receivable	22,407	25,994
Allowance for other funds used during construction	(8,766)	(7,064)
Gain on asset dispositions and purchases	(2,512)	(616)
Pension and non-pension postretirement benefits	45,973	18,056
Other non-cash, net	(31,208)	9,441
Changes in assets and liabilities		
Receivables and unbilled revenues	(146,543)	(77,281)
Taxes accrued, including income taxes	23,300	11,067
Pension and non-pension postretirement benefit contributions	(39,995)	(35,783)
Accounts payable and accrued expenses	20,978	12,947
Other current assets and liabilities, net	31,461	22,765
Net cash provided by operating activities	855,618	840,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(791,079)	(664,871)
Acquisitions and related costs	(175,567)	(6,053)
Proceeds from sale of assets	4,985	804
Removal costs from property, plant and equipment retirements, net	(73,747)	(51,959)
Net funds released (restricted)	(8,574)	738
Net cash used in investing activities	(1,043,982)	(721,341)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	563,727	500,497
Repayment of long-term debt	(88,401)	(137,939)
Proceeds from short-term borrowings with maturities greater than three months	60,000	35,000
Repayment of short-term borrowings with maturities greater than three months	(60,000)	(256,000)
Net short-term repayments with maturities less than three months	(70,015)	(95,328)
Proceeds from issuances of employee stock plans and dividend reinvestment plan	32,329	15,446
Advances and contributions for construction, net of refunds of $17,057 and $16,305 at September 30, 2015 and 2014, respectively	20,417	21,293
Debt issuance costs	(7,263)	(4,593)
Dividends paid	(177,664)	(160,848)
Anti-dilutive share repurchase	(39,257)	—
Tax benefit realized from equity compensation	6,635	10,715
Net cash provided by (used in) financing activities	240,508	(71,757)
Net increase in cash and cash equivalents	52,144	47,164
Cash and cash equivalents at beginning of period	23,080	26,964
Cash and cash equivalents at end of period	$ 75,224	$ 74,128
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	$ 195,411	$ 163,053

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 thousands)

	Common Stock				Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Par Value	Paid-in Capital	Accumulated Deficit		Shares	At Cost	
Balance at December 31, 2014	179,462	$ 1,795	$ 6,301,729	$ (1,295,549)	$ (81,868)	(261)	$ (10,516)	$ 4,915,591
Cumulative effect of change in accounting principle	—	—	—	(8,395)	—	—	—	(8,395)
Net income	—	—	—	377,012	—	—	—	377,012
Direct stock reinvestment and purchase plan, net of expense of $38	66	—	3,463	—	—	—	—	3,463
Employee stock purchase plan	70	1	3,825	—	—	—	—	3,826
Stock-based compensation activity	1,079	11	39,592	(621)	—	(114)	(6,351)	32,631
Repurchase of common stock	—	—	—	—	—	(750)	(39,257)	(39,257)
Other comprehensive income, net of tax of $2,603	—	—	—	—	2,693	—	—	2,693
Dividends	—	—	—	(122,112)	—	—	—	(122,112)
Balance at September 30, 2015	180,677	$ 1,807	$ 6,348,609	$ (1,049,665)	$ (79,175)	(1,125)	$ (56,124)	$ 5,165,452

	Common Stock				Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Par Value	Paid-in Capital	Accumulated Deficit		Shares	At Cost	
Balance at December 31, 2013	178,379	$ 1,784	$ 6,261,396	$ (1,495,698)	$ (34,635)	(132)	$ (5,043)	$ 4,727,804
Net income	—	—	—	329,607	—	—	—	329,607
Direct stock reinvestment and purchase plan, net of expense of $22	34	—	1,568	—	—	—	—	1,568
Employee stock purchase plan	75	1	3,458	—	—	—	—	3,459
Stock-based compensation activity	777	8	30,765	(640)	—	(122)	(5,179)	24,954
Other comprehensive loss, net of tax of $(374)	—	—	—	—	(1,307)	—	—	(1,307)
Dividends	—	—	—	(166,433)	—	—	—	(166,433)
Balance at September 30, 2014	179,265	$ 1,793	$ 6,297,187	$ (1,333,164)	$ (35,942)	(254)	$ (10,222)	$ 4,919,652

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

Note 1: Basis of Presentation

The unaudited consolidated financial statements provided in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries in which a controlling interest is maintained (collectively, “American Water or the “Company”) after the elimination of intercompany accounts and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position at September 30, 2015 and results of operations and cash flows for all periods presented have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

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

Effective July 8, 2015, the Company acquired a ninety-five percent interest in Water Solutions Holdings, LLC (the “Keystone Acquisition”), including its wholly owned subsidiary, Keystone Clearwater Solutions, LLC. The Company also entered into an agreement, whereby it has the option to acquire from the minority owners, and the minority owners have the option to sell to the Company, the remaining five percent interest at fair value upon the occurrence of certain triggering events or at defined dates of December 31, 2016 and December 31, 2018. As the noncontrolling interest is redeemable at the option of the minority owners, the Company has classified the balance as redeemable noncontrolling interest, which is included in other long-term liabilities in the accompanying Consolidated Balance Sheets. The fair value of the redeemable noncontrolling interest was estimated to be $6,999 at the acquisition date. The net loss attributable to noncontrolling interest was $28 for the three and nine months ended September 30, 2015.

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

Note 2: New Accounting Pronouncements

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

Service Concession Arrangements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued guidance for an operating entity that enters into a service concession arrangement with a public sector grantor who controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide the services and at what price. The grantor must also control, 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 such an arrangement should not be recognized as property, plant and equipment of the operating entity. To comply with this guidance, application was required on a modified retrospective basis to service concession arrangements that existed at January 1, 2015. The Company reduced nonutility property and other long-term assets for infrastructure related to service concession arrangements and recognized a cumulative effect adjustment of $8,395, net of tax, to the opening balance of accumulated deficit at January 1, 2015.

Reporting Discontinued Operations

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

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

Revenue from Contracts with Customers

In May 2014, the FASB issued a new revenue recognition standard that will replace most existing revenue recognition guidance in GAAP, including industry-specific guidance, and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of the new guidance is that a company will recognize revenue for the transfer of goods or services to customers equal to the amount that it expects to be entitled to receive for those goods or services. The guidance also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The guidance allows for both retrospective and prospective methods of adoption and is effective January 1, 2018 for the Company. Early adoption is permitted, but not before January 1, 2017 for the Company. The Company is currently evaluating the impact, if any, that the adoption will have on its results of operations, financial position or cash flows and it has not yet selected a transition method.

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 updated guidance resolves the diverse accounting treatment for share-based payments by requiring that a performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period be treated as a performance condition. The requisite service periods ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This guidance is effective January 1, 2016 for the Company and early adoption is permitted. The adoption of this updated guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

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

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

Amendments to the Consolidation Analysis

In February 2015, the FASB issued guidance that amends the consolidation analysis for variable interest entities ("VIEs") as well as voting interest entities. The amendments under the new guidance modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and eliminate the presumption that a general partner should consolidate a limited partnership. The guidance is effective January 1, 2016 for the Company and early adoption is permitted. The guidance may be applied retrospectively to each prior reporting period presented or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method). The adoption of this updated guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance on imputation of interest and simplifying the presentation of debt issuance costs. The updated guidance requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Such treatment is consistent with the current presentation of debt discounts or premiums. The updated guidance is effective January 1, 2016 for the Company and early adoption is permitted. The amended guidance must be applied on a retrospective basis for all periods presented. The adoption of this updated guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued guidance clarifying how customers should account for fees paid in a cloud computing arrangement. Under the new guidance, if a cloud computing arrangement contains a software license, the customer would account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer would account for the arrangement as a service contract. The guidance is effective January 1, 2016 for the Company with early adoption permitted. The guidance may be applied retrospectively or prospectively to arrangements entered into, or materially modified after the effective date. The adoption of this updated guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Amendments to the Measurement of Inventory

In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The new guidance replaces the current lower of cost or market test with a lower of cost or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The guidance is effective January 1, 2017 for the Company with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Note 3: Acquisitions and Divestitures

Acquisitions

During the nine-month period ended September 30, 2015, the Company closed on seven acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $44,049. Assets acquired, principally utility plant, totaled $67,420. Liabilities assumed totaled $23,008, including $8,415 of contributions in aid of construction and other long-term liabilities of $14,039. The Company recorded additional goodwill of $2,054 associated with four of its acquisitions, which is reported in its Regulated Businesses segment and is expected to be fully deductible for tax purposes. The Company also recognized a bargain purchase gain of $2,417 associated with three of its acquisitions, of which $1,301 was deferred as a regulatory liability.

The Company also closed on the Keystone Acquisition, which is included as part of the Market-Based Businesses segment, for a total purchase price of $132,819, net of cash received. The estimated fair value of assets acquired and liabilities assumed was $44,008 and $6,981, respectively, and principally included the acquisition of nonutility property of $25,462 and accounts receivable of $10,843. The preliminary purchase price allocation, which is based on the estimated fair value of net assets acquired, resulted in the Company recording redeemable noncontrolling interest of $6,999 and additional goodwill of $102,791. The purchase price allocation will be finalized once the valuation of net assets acquired has been completed. Goodwill is expected to be fully deductible for tax purposes. The pro forma impact of this acquisition would not have been material to the Company's results of operations for the three and nine month periods ended September 30, 2015 and 2014.

Divestitures

In November 2014, the Company completed the sale of Terratec Environmental Ltd ("Terratec") previously included in the Market-Based Businesses segment. A summary of discontinued operations presented in the Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2014 is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
	2014	2014
Operating revenues	$ 4,910	$ 12,234
Total operating expenses, net	7,973	17,657
Loss from discontinued operations before income taxes	(3,063)	(5,423)
Provision from income taxes	1,360	865
Loss from discontinued operations	$ (4,423)	$ (6,288)

Note 4: Stockholders' Equity

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended September 30, 2015 and 2014, respectively:

	Defined Benefit Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss (Gain)	Foreign Currency Translation	Loss on Cash Flow Hedge	Total Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2015	$ (115,830)	$ 879	$ 31,119	$ 2,755	$ (791)	$ (81,868)
Other comprehensive loss before reclassifications	—	—	—	(1,388)	—	(1,388)
Amounts reclassified from accumulated other comprehensive loss	—	117	3,906	—	58	4,081
Net comprehensive income (loss) for the period	—	117	3,906	(1,388)	58	2,693
Ending balance at September 30, 2015	$ (115,830)	$ 996	$ 35,025	$ 1,367	$ (733)	$ (79,175)
Beginning balance at January 1, 2014	$ (69,711)	$ 713	$ 31,150	$ 3,213	$ —	$ (34,635)
Other comprehensive loss before reclassifications	—	—	—	(594)	(825)	(1,419)
Amounts reclassified from accumulated other comprehensive loss	—	124	(22)	—	10	112
Net comprehensive income (loss) for the period	—	124	(22)	(594)	(815)	(1,307)
Ending balance at September 30, 2014	$ (69,711)	$ 837	$ 31,128	$ 2,619	$ (815)	$ (35,942)

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

The amortization of the loss on cash flow hedge is reclassified to net income during the period incurred and is included in interest, net in the accompanying Consolidated Statements of Operations and Comprehensive Income. At September 30, 2015, an after-tax net loss of $78 is expected to be reclassified from accumulated other comprehensive loss to net income over the next 12 months.

Antidilutive Stock Repurchase Program

In February 2015, the Company's Board of Directors authorized a common stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment, employee stock purchase and executive compensation activities. This program allows the Company to purchase up to 10,000 shares of its outstanding common stock over an unrestricted period of time to minimize dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions.

The shares repurchased are held as treasury shares, at cost, until cancelled or reissued at the discretion of the Company's management. During the nine months ended September 30, 2015, the Company repurchased 750 shares of common stock in the open market at an aggregate cost of $39,272 under the program.

Stock Options

In the first nine months of 2015, the Company granted non-qualified stock options to certain employees under the Company's 2007 Omnibus Equity Compensation Plan (the "2007 Plan"). The stock options vest ratably over the three-year service period beginning January 1, 2015. These awards have no performance vesting conditions and the grant date fair value is amortized through expense over the requisite service period using the straight-line method.

The following table presents the weighted-average assumptions used in the Black-Scholes option-pricing model and the resulting weighted-average grant date fair value per share of stock options granted during the nine months ended September 30, 2015:

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

Stock options granted under the 2007 Plan have a maximum term of seven years, vest over periods ranging from one to three years, and are granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant. As of September 30, 2015, $1,885 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.7 years.

The table below summarizes stock option activity for the nine months ended September 30, 2015:

	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2015	1,910	$ 33.47		
Granted	301	52.75		
Forfeited or expired	(44)	44.70		
Exercised	(780)	32.70		
Options outstanding at September 30, 2015	1,387	$ 37.73	3.8	$ 24,072
Exercisable at September 30, 2015	860	$ 31.22	2.6	$ 20,526

The following table summarizes additional information regarding stock options exercised during the nine months ended September 30, 2015 and 2014:

	2015	2014
Intrinsic value	$ 15,812	$ 8,775
Exercise proceeds	25,497	10,831
Income tax benefit	4,724	2,634

Restricted Stock Units

During 2012, the Company granted selected employees an aggregate of 158 restricted stock units with internal performance measures and, separately, certain market thresholds. These awards vested in January 2015. The terms of the grants generally specified that to the extent certain performance goals, comprised of internal measures and market thresholds, were achieved, the restricted stock units would vest; if target performance was surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, the awards would be forfeited. In January 2015, 93 shares of common stock were issued pursuant to the vesting of these restricted stock units because performance thresholds were exceeded.

In June 2015, the Company granted 15 stock units to non-employee directors under the 2007 Plan. The stock units vested on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (a) 15 months after grant date or (b) the participant's separation from service. Because these stock units vested on grant date, the total grant date fair value was recorded in operation and maintenance expense on the grant date.

In the first nine months of 2015, the Company granted restricted stock units, both with and without performance conditions, to certain employees under the 2007 Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1, 2015 and the restricted stock units with performance conditions vest ratably over the three-year performance period beginning January 1, 2015 (the "Performance Period"). Vesting of the shares underlying the restricted stock units with performance conditions is contingent upon the achievement of internal performance measures and, separately, certain market thresholds over the Performance Period. The restricted stock units granted with service-only conditions and those with internal performance measures are valued at the market value of the Company's common stock on the date of grant. The restricted stock units granted with market conditions are valued using a Monte Carlo model.

The following table presents the weighted-average assumptions used in the Monte Carlo simulation for restricted stock units with market conditions granted during the nine months ended September 30, 2015:

Expected volatility	14.93%
Risk-free interest rate	1.07%
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, 2015, $5,845 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, 2015:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2015	516	$ 41.46
Granted	150	55.63
Performance share adjustment	93	38.11
Vested	(304)	39.46
Forfeited	(22)	45.38
Non-vested total at September 30, 2015	433	$ 46.86

The following table summarizes additional information regarding restricted stock units issued during the nine months ended September 30, 2015 and 2014:

	2015	2014
Intrinsic value	$ 16,544	$ 14,938
Income tax benefit	1,957	1,592

If dividends are paid with respect to shares of the Company's common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $621 and $640 to retained earnings during the nine months ended September 30, 2015 and 2014, respectively.

Note 5: Long-Term Debt

The following long-term debt was issued during the first nine months of 2015:

Company	Type	Rate	Maturity	Amount
American Water Capital Corp. ("AWCC") (a)	Senior notes—fixed rate	3.40%-4.30%	2025-2045	$ 550,000
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	1.00%-1.56%	2022-2032	13,727
Total issuances				$ 563,727

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

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

	Type	Rate	Maturity	Amount
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	1.79%-5.25%	2015-2031	$ 36,442
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-7.45%	2015-2041	50,733
Other American Water subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other American Water subsidiaries	Capital lease payments	12.23%	2026	26
Total retirements and redemptions				$ 88,401

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 interest rate swap is a derivative instrument accounted for as a fair-value hedge and matures with the fixed-rate debt in 2017.

The following table provides a summary of the fair value for the interest rate swap and related debt recorded by the Company and the line item in the Consolidated Balance Sheets in which such amounts are recorded:

Balance sheet classification	September 30, 2015	December 31, 2014
Regulatory and other long-term assets		
Other	$ 3,493	$ 3,636
Long-term debt		
Long-term debt	3,478	3,570

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	2015	2014	2015	2014
Interest, net				
Gain (loss) on swap	$ 21	$ (1,058)	$ (143)	$ (1,261)
Gain (loss) on borrowing	(82)	$ 945	92	1,198
Hedge ineffectiveness	(61)	(113)	(51)	(63)

Note 6: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $379,944 (net of discount of $56) at September 30, 2015 and $449,959 (net of discount of $41) at December 31, 2014. At September 30, 2015, there were no borrowings with maturities greater than three months.

Note 7: Income Taxes

The Company's estimated annual effective tax rate for the nine months ended September 30, 2015 was 39.5% compared to 39.7% for the nine months ended September 30, 2014, excluding various discrete items.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Actual effective tax rate	39.4%	40.6%	39.6%	40.1%

In connection with the Company’s filing of its consolidated 2014 tax return in September 2015, the Company deducted bonus depreciation of which approximately $88,840 of deferred tax liabilities is related to the Regulated Businesses segment.

Note 8: 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,	
	2015	2014	2015	2014
Components of net periodic pension benefit cost				
Service cost	$ 9,334	$ 7,943	$ 28,002	$ 23,830
Interest cost	18,576	19,163	55,728	57,489
Expected return on plan assets	(24,366)	(23,709)	(73,098)	(71,128)
Amortization of:				
Prior service cost	188	181	565	543
Actuarial loss (gain)	6,277	(33)	18,831	(98)
Net periodic pension benefit cost	$ 10,009	$ 3,545	$ 30,028	$ 10,636
Components of net periodic other postretirement benefit cost				
Service cost	$ 3,443	$ 2,764	$ 10,330	$ 8,293
Interest cost	7,466	7,152	22,397	21,454
Expected return on plan assets	(6,299)	(6,875)	(18,897)	(20,625)
Amortization of:				
Prior service credit	(547)	(548)	(1,642)	(1,642)
Actuarial loss (gain)	1,252	(20)	3,757	(60)
Net periodic other postretirement benefit cost	$ 5,315	$ 2,473	$ 15,945	$ 7,420

The Company contributed $20,100 to its defined benefit pension plans in the first nine months of 2015 and expects to contribute $7,900 during the remainder of 2015. In addition, the Company contributed $19,895 for the funding of its other postretirement plans in the first nine months of 2015 and expects to contribute $6,632 during the remainder of 2015.

Note 9: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At September 30, 2015, the Company has accrued approximately $3,600 of probable loss contingencies and has estimated that the maximum amount of losses associated with reasonably possible loss contingencies is $33,600. For certain matters, the Company is unable to estimate possible losses.

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone and Putnam counties. Fifty-two of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. ("AWWSC," and together with WVAWC and the Company, the "American Water Defendants") were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases back to the state courts and have been consolidated for the sole purpose of resolving venue issues. Four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated complaint for those cases was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with Crude MCHM and provided by WVAWC in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The amended consolidated complaint names several individuals and corporate entities as defendants, including the American Water Defendants. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety or alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease.

On April 9, 2015, the court in the Federal action denied a motion to dismiss all claims against the Company for lack of personal jurisdiction. A separate motion to dismiss filed by AWWSC and WVAWC (and joined by the Company) asserting various legal defenses in the Federal action was resolved by the court on June 3, 2015. The court dismissed three causes of action but denied the motion to dismiss with respect to the remaining causes of actions and allowed the plaintiffs to continue to pursue the various claims for damages alleged in their amended consolidated complaint.

On July 6, 2015, the plaintiffs filed a motion seeking certification of a class defined to include persons who resided in dwellings served by WVAWC's Kanawha Valley Treatment Plant ("KVTP") on January 9, 2014, persons who owned businesses served by the KVTP on January 9, 2014, and hourly employees who worked for such businesses. The plaintiffs sought a class-wide determination of liability against the American Water Defendants, among others, and of damages to the three groups of plaintiffs as a result of the "Do Not Use" order that was issued after the Freedom Industries spill.

A court-directed mediation was held at the end of September 2015 with the assistance of private mediators. Representatives of the American Water Defendants, Eastman Chemical, the Federal action plaintiffs, and the plaintiffs in the 53 state court cases removed to Federal court, as well as insurance carriers for certain of the defendants, participated in the mediation. No resolution was reached and no further mediation discussions have been scheduled to date.

On October 8, 2015, the court in the Federal action granted in part and denied in part the plaintiffs' class certification motion. The court certified a class addressing certain liability elements of the negligence claims against Eastman Chemical and of the negligence and breach of contract claims against the American Water Defendants. However, the court granted the joint motion by defendants to exclude certain expert testimony, disallowing the testimony of plaintiffs' economic damages experts, and denied class certification as to any damages, including punitive damages. Thus, determination or quantification of damages, if any, would be made in subsequent proceedings on an individual basis.

The Company believes that the causes of action asserted against the American Water Defendants in the lawsuits described above are without merit and continues to vigorously defend itself in these proceedings. Given the current stage of these proceedings, the Company cannot reasonably estimate the amount of any reasonably possible losses or a range of such losses related to these proceedings.

Other than as described in this Note 9, the Company believes that damages or settlements recovered by plaintiffs, if any, in claims or actions will not, individually or in the aggregate, have a material adverse effect on the Company.

Note 10: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $1,100 and $2,200 at September 30, 2015 and December 31, 2014, respectively. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 through 2016. The Company's inception-to-date costs related to the NOAA agreement were recorded in regulatory assets in the accompanying Consolidated Balance Sheets at September 31, 2015 and December 31, 2014 and are expected to be fully recovered from customers in future rates.

Note 11: Earnings per Common Share

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

The following table provides the components for calculating basic earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic	2015	2014	2015	2014
Income from continuing operations	$ 173,894	$ 156,608	$ 377,012	$ 335,895
Loss from discontinued operations, net of tax	—	(4,423)	—	(6,288)
Net income	173,894	152,185	377,012	329,607
Less: Distributed earnings to common stockholders	61,192	55,664	178,234	161,439
Less: Distributed earnings to participating securities	19	17	51	49
Undistributed earnings	112,683	96,504	198,727	168,119
Undistributed earnings allocated to common stockholders	112,651	96,478	198,676	168,070
Undistributed earnings allocated to participating securities	32	26	51	49
Total income from continuing operations available to common stockholders, basic	$ 173,843	$ 156,565	$ 376,910	$ 335,797
Total net income available to common stockholders, basic	$ 173,843	$ 152,142	$ 376,910	$ 329,509
Weighted-average common shares outstanding, basic	179,578	178,992	179,534	178,800
Basic earnings per share: (a)				
Income from continuing operations	$ 0.97	$ 0.87	$ 2.10	$ 1.88
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)	$ 0.00	$ (0.04)
Net income	$ 0.97	$ 0.85	$ 2.10	$ 1.84

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

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

The following table provides the components for calculating diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Diluted	2015	2014	2015	2014
Total income from continuing operations available to common stockholders, basic	$ 173,843	$ 156,565	$ 376,910	$ 335,797
Loss from discontinued operations, net of tax	—	(4,423)	—	(6,288)
Total net income available to common stockholders, basic	173,843	152,142	376,910	329,509
Undistributed earnings for participating securities	32	26	51	49
Total income from continuing operations available to common stockholders, diluted	$ 173,875	$ 156,591	$ 376,961	$ 335,846
Total net income available to common stockholders, diluted	$ 173,875	$ 152,168	$ 376,961	$ 329,558
Weighted-average common shares outstanding, basic	179,578	178,992	179,534	178,800
Common stock equivalents:				
Restricted stock units	442	497	439	460
Stock options	332	458	372	462
Employee stock purchase plan	1	1	1	1
Weighted-average common shares outstanding, diluted	180,353	179,948	180,346	179,723
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.96	$ 0.87	$ 2.09	$ 1.87
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)	$ 0.00	$ (0.03)
Net income available	$ 0.96	$ 0.85	$ 2.09	$ 1.83

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock options	292	49	292	334
Restricted stock units where certain performance conditions were not met	21	53	22	53

Note 12: Fair Value of Financial Assets and Liabilities

Fair Value of Financial Instruments

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

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility debt securities with a bond credit rating of A. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

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

		Fair Value at September 30, 2015			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 15,936	$ —	$ —	$ 21,612	$ 21,612
Long-term debt (excluding capital lease obligations)	5,960,128	3,379,017	1,449,557	1,941,459	6,770,033

		Fair Value at December 31, 2014			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 17,151	$ —	$ —	$ 22,167	$ 22,167
Long-term debt (excluding capital lease obligations)	5,491,341	2,874,622	1,474,708	2,055,058	6,404,388

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at September 30, 2015 and December 31, 2014, respectively:

	At Fair Value as of September 30, 2015			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Assets				
Restricted funds	$ 32,174	$ —	$ —	$ 32,174
Rabbi trust investments	—	11,762	—	11,762
Deposits	1,666	—	—	1,666
Mark-to-market derivative asset	—	3,493	—	3,493
Other investments	4,135	—	—	4,135
Total assets	37,975	15,255	—	53,230
Liabilities				
Deferred compensation obligation	—	10,659	—	10,659
Mark-to-market derivative liability	—	865	—	865
Total liabilities	—	11,524	—	11,524
Total net assets	$ 37,975	$ 3,731	$ —	$ 41,706

	At Fair Value as of December 31, 2014			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Assets				
Restricted funds	$ 22,817	$ —	$ —	$ 22,817
Rabbi trust investments	—	11,751	—	11,751
Deposits	4,158	—	—	4,158
Mark-to-market derivative asset	—	3,636	—	3,636
Other investments	22,365	—	—	22,365
Total assets	49,340	15,387	—	64,727
Liabilities				
Deferred compensation obligation	—	11,765	—	11,765
Mark-to-market derivative liability	—	1,012	—	1,012
Total liabilities	—	12,777	—	12,777
Total net assets	$ 49,340	$ 2,610	$ —	$ 51,950

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of equity and fixed income indexed funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—Other investments primarily represent money market funds used for active employee benefits. The Company includes other investments in other current assets.

Note 13: Segment Information

The Company has two operating segments that are also the Company’s two reportable segments, referred to as Regulated Businesses and Market-Based Businesses. The following table includes the Company’s summarized segment information:

	As of or for the Three Months Ended September 30, 2015			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Net operating revenues	$ 780,729	$ 120,373	$ (4,896)	$ 896,206
Depreciation and amortization	104,235	2,043	4,918	111,196
Total operating expenses, net	437,964	101,573	(4,614)	534,923
Income from continuing operations before income taxes	283,632	20,666	(17,213)	287,085
Total assets	15,091,471	497,051	1,516,651	17,105,173

	As of or for the Three Months Ended September 30, 2014			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Net operating revenues	$ 753,701	$ 96,980	$ (4,512)	$ 846,169
Depreciation and amortization	99,120	1,447	6,222	106,789
Total operating expenses, net	434,912	79,915	(5,943)	508,884
Income from continuing operations before income taxes	258,539	17,634	(12,360)	263,813
Total assets	14,161,472	309,935 (a)	1,244,240	15,715,647

	As of or for the Nine Months Ended September 30, 2015			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Net operating revenues	$ 2,082,950	$ 307,822	$ (14,367)	$ 2,376,405
Depreciation and amortization	306,205	4,241	17,050	327,496
Total operating expenses, net	1,290,551	260,449	(17,740)	1,533,260
Income from continuing operations before income taxes	616,530	50,460	(42,776)	624,214
Total assets	15,091,471	497,051	1,516,651	17,105,173

	As of or for the Nine Months Ended September 30, 2014			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Net operating revenues	$ 2,039,446	$ 253,857	$ (13,353)	$ 2,279,950
Depreciation and amortization	296,084	4,354	17,960	318,398
Total operating expenses, net	1,302,298	212,075	(13,938)	1,500,435
Income from continuing operations before income taxes	555,985	43,593	(38,910)	560,668
Total assets	14,161,472	309,935 (a)	1,244,240	15,715,647

(a) Amount includes assets of discontinued operations of $6,256.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as “may,” “should,” “will,” “could,” “estimates,” “predicts,” “potential,” “continue,” “anticipates,” “believes,” “plans,” “expects,” “future” and “intends” and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the “Risk Factors” section or other sections in the Company’s annual report on Form 10-K (“Form 10-K”) for the year ended December 31, 2014, and in this Form 10-Q, each as filed with the Securities and Exchange Commission (“SEC”). We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. (“American Water” or the “Company”) is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. These utilities are generally subject to economic regulation by state regulatory agencies in the states in which they operate. We report the financial results of these utilities in our Regulated Businesses segment. We also provide other services through businesses that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Businesses segment. For further description of our businesses see Part I, Item 1, “Business,” in our Form 10-K and “Overview - Growth - Infrastructure improvements, acquisitions and strategic investments” in this section.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K.

Overview

Financial Results

Highlights of our operating results per diluted share for the three and nine months ended September 30, 2015 compared to same periods during 2014 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Income from continuing operations	$ 0.96	$ 0.87	$ 2.09	$ 1.87
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)	$ 0.00	$ (0.03)
Diluted earnings per share	$ 0.96	$ 0.85	$ 2.09	$ 1.83

Continuing Operations

Income from continuing operations increased 9 cents and 22 cents per diluted share for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. Excluding the costs related to the Freedom Industries chemical spill in West Virginia of 4 cents per diluted share for the nine months ended September 30, 2014, income for the nine months ended September 30, 2015 increased 18 cents per diluted share. The increases for both the three and nine month periods in 2015 compared to 2014 was mainly due to continued growth in both our Regulated Businesses and Market-Based Businesses segments.

For the quarter ended September 30, 2015, our Regulated Businesses segment continued to experience growth through infrastructure investment along with an increase in demand compared to the same period in the prior year. Our Market-Based Businesses segment also continued to experience earnings growth through its Military Services Group (“MSG”) line of business.

For the nine months ended September 30, 2015, the Regulated Businesses segment experienced growth through infrastructure investments and increased demand coupled with lower operating and maintenance expenses from a continued focus on operational efficiency. Our Market-Based Businesses segment also continued to experience earnings growth through its MSG line of business.

Discontinued Operations

In the fourth quarter of 2014, we sold our Terratec line of business, which was part of our Market-Based Businesses segment. The after-tax loss from discontinued operations for both the three and nine months ended September 30, 2014 includes the operating results of the entity prior to the sale.

Regulatory Matters

The table below provides rate authorizations by state of annualized revenues awarded assuming a constant volume and effective in 2015:

	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2015
	(In millions)	
State		
General Rate Cases:		
New Jersey (September 21)	$ 22.0	$ 22.0
Kentucky (July 2) (a)	—	—
Maryland (June 19)	—	0.5
Indiana (January 29)	—	5.1
California (January 1)	—	5.2
Total General Rate cases	$ 22.0	$ 32.8
Infrastructure charges:		
Pennsylvania (b)	$ 4.6	$ 6.2
New Jersey (January 1)	—	9.4
Illinois (c)	—	5.9
Tennessee (June 30)	—	2.2
Missouri (June 27) (d)	—	1.9
New York (June 1)	—	0.1
Total Infrastructure charges	$ 4.6	$ 25.7

(a) Additional annualized revenue granted of $0.2 million; increase is effective in one-fourth increments over each of the next four years.
(b) Rates of $1.6 million and $4.6 million became effective April 1, 2015 and July 1, 2015, respectively.
(c) Rates of $4.9 million and $1.0 million became effective January 1, 2015 and February 1, 2015, respectively.
(d) The Office of the Public Counsel filed an appeal notice claiming St. Louis County no longer meets the required population requirement for an infrastructure charge.

In July 2015, our California subsidiary filed an application with the California Public Utilities Commission (the "CPUC") to request changes to the present rate design and the emergency conservation and rationing plan for water customers in certain areas within its Monterey County service district. If approved, the proposed changes would allow (i) recovery of existing under-collections of the net water revenue adjustment mechanism/modified cost balancing account ("WRAM/MCBA") balance, currently amounting to approximately $43 million, over 20 years earning a pretax rate of 8.41%; (ii) an annual consumption true-up mechanism and rate design that provide for more timely collection of the cost of service; and (iii) modification of existing conservation and rationing plans. We expect a CPUC decision in mid to late 2016. On November 4, 2015, our California subsidiary received an Assigned Commissioner's Scoping Memo and Ruling related to our WRAM filing. The Company is reviewing the terms of this document to determine the impact on the WRAM filing and the related timing of the decision, if any.

On July 31, 2015, our Missouri subsidiary filed a general rate case requesting additional annualized revenue of approximately $25.2 million.

Following the close of the third quarter, additional annualized revenue of $7.8 million resulting from infrastructure charges in our Pennsylvania subsidiary became effective on October 1, 2015. Also, on October 30, 2015, our Virginia subsidiary filed a general rate case requesting additional annualized revenue of approximately $8.7 million.

As of November 4, 2015, we are awaiting final general rate case orders in three states, requesting additional annualized revenue of $69.5 million. There is no assurance that all or any portion of these requests will be granted.

Focusing on Central Themes

For 2015, our focus is anchored on five central themes: 1) Customers, 2) Safety, 3) People, 4) Growth and 5) Operational Efficiency. We will continue our focus on operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces value for our shareholders. Additionally, we will continue our ongoing strategy that ensures a safe workplace for our employees, emphasizes public safety for our customers and communities, and leverages our human resources, processes and technology innovation to make our business more effective and efficient. The progress that we have made in the first nine months of 2015 with respect to growth and improvement in our operational efficiency ratio is described below.

Growth - Infrastructure improvements, acquisitions and strategic investments

During the nine months of 2015, we made capital investments of approximately $969.9 million, focused in three key areas:

- $793.1 million to improve infrastructure in our Regulated Businesses.
- $132.8 million for the acquisition (the “Keystone Acquisition”) of our ninety-five percent interest in Water Solutions Holdings, LLC, the parent company of Keystone Clearwater Solutions, LLC (“Keystone”), in the third quarter of 2015. Keystone is a water service provider that offers a range of water-related services to the oil and gas industry in the Appalachian region and is included in our Market-Based Businesses segment.
- $44.0 million for regulated acquisitions, which added a total of more than 19,000 water and wastewater customers.

For the full-year of 2015, our total capital investment, including acquisitions, is expected to be in the range of $1.3 to $1.4 billion, most of which is for improving infrastructure in our Regulated Businesses.

Technology and Operational Efficiency - Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our operation and maintenance (“O&M”) efficiency ratio (a non-GAAP measure). Our adjusted O&M efficiency ratio for the twelve months ended September 30, 2015 was 35.8%, compared to 36.8% for the twelve months ended September 30, 2014. The improvement in the 2015 O&M efficiency ratio over this period was attributable to both an increase in revenue and decreases in O&M expenses.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses’ operations. This information is intended to enhance an investor’s overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies’ operating measures and should not be used in place of the GAAP information provided elsewhere in this report.

Our O&M efficiency ratio is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues were adjusted to eliminate purchased water expense. Additionally, from the O&M expenses, we excluded the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the accompanying Consolidated Statement of Operations and Comprehensive Income. In addition, to the standard adjustments to the O&M Efficiency ratio for the twelve months ended September 30, 2015 and 2014, we have also excluded from operating revenues and O&M expenses the estimated impact from changes in consumption as a result of weather and the West Virginia Freedom Industries chemical spill. We excluded all the above items from the calculation as we believe such items are not reflective of management’s ability to increase efficiency of the Company’s regulated operations.

The following table provides the calculation and reconciliation that compares O&M and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our adjusted O&M efficiency ratio for the twelve months ended September 30, 2015 as compared to the same period in 2014.

Calculation and Reconciliation of Adjusted Regulated O&M Efficiency Ratio (a Non-GAAP Measure):

	For the Twelve Months Ended September 30, 2015	For the Twelve Months Ended September 30, 2014
	(In thousands)	
Total Operation and Maintenance Expense	$ 1,369,553	$ 1,330,605
Less:		
Operation and maintenance expense—Market-Based Businesses	337,415	272,386
Operation and maintenance expense—Other	(52,805)	(53,606)
Total Regulated Operation and Maintenance Expense	1,084,943	1,111,825
Less:		
Regulated purchased water expense	117,801	119,692
Allocation of non-operation and maintenance expense	37,095	37,975
Impact of West Virginia Freedom Industries chemical spill	136	10,302
Estimated impact of weather (mid-point of range)	—	(1,762)
Adjusted Regulated Operation and Maintenance Expense (a)	$ 929,911	$ 945,618
Total Operating Revenues	$ 3,107,783	$ 2,986,192
Less:		
Operating revenues—Market-Based Businesses	408,643	334,647
Operating revenues—Other	(18,693)	(17,594)
Total Regulated Operating Revenues	2,717,833	2,669,139
Less:		
Regulated purchased water expense*	117,801	119,692
Plus:		
Impact of West Virginia Freedom Industries chemical spill	—	1,012
Estimated impact of weather (mid-point of range)	—	16,785
Adjusted Regulated Operating Revenues (b)	$ 2,600,032	$ 2,567,244
Adjusted Regulated Operation and Maintenance Efficiency Ratio (a)/(b)	35.8%	36.8%

* Calculation assumes purchased water revenues approximate purchased water expenses.

Consolidated Results of Operations and Changes from Prior Periods

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Favorable (Unfavorable) Change	2015	2014	Favorable (Unfavorable) Change
	(In thousands, except per share amounts)					
Operating revenues	$ 896,206	$ 846,169	$ 50,037	$ 2,376,405	$ 2,279,950	$ 96,455
Operating expenses						
Operation and maintenance	363,610	341,348	(22,262)	1,024,066	1,004,377	(19,689)
Depreciation and amortization	111,196	106,789	(4,407)	327,496	318,398	(9,098)
General taxes	60,292	60,807	515	184,210	178,276	(5,934)
Gain on asset dispositions and purchases	(175)	(60)	115	(2,512)	(616)	1,896
Total operating expenses, net	534,923	508,884	(26,039)	1,533,260	1,500,435	(32,825)
Operating income	361,283	337,285	23,998	843,145	779,515	63,630
Other income (expenses)						
Interest, net	(77,636)	(75,445)	(2,191)	(228,730)	(222,673)	(6,057)
Allowance for other funds used during construction	3,571	2,805	766	8,766	7,064	1,702
Allowance for borrowed funds used during construction	2,168	1,570	598	6,232	4,324	1,908
Amortization of debt expense	(2,112)	(1,669)	(443)	(5,754)	(4,971)	(783)
Other, net	(189)	(733)	544	555	(2,591)	3,146
Total other income (expenses)	(74,198)	(73,472)	(726)	(218,931)	(218,847)	(84)
Income from continuing operations before income taxes	287,085	263,813	23,272	624,214	560,668	63,546
Provision for income taxes	113,191	107,205	(5,986)	247,202	224,773	(22,429)
Income from continuing operations	173,894	156,608	17,286	377,012	335,895	41,117
Loss from discontinued operations, net of tax	—	(4,423)	4,423	—	(6,288)	6,288
Net income	$ 173,894	$ 152,185	$ 21,709	$ 377,012	$ 329,607	$ 47,405
Basic earnings per share: (a)						
Income from continuing operations	$ 0.97	$ 0.87		$ 2.10	$ 1.88	
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)		$ 0.00	$ (0.04)	
Net income	$ 0.97	$ 0.85		$ 2.10	$ 1.84	
Diluted earnings per share: (a)						
Income from continuing operations	$ 0.96	$ 0.87		$ 2.09	$ 1.87	
Loss from discontinued operations, net of tax	$ 0.00	$ (0.02)		$ 0.00	$ (0.03)	
Net income	$ 0.96	$ 0.85		$ 2.09	$ 1.83	
Average common shares outstanding during the period:						
Basic	179,578	178,992		179,534	178,800	
Diluted	180,353	179,948		180,346	179,723	

(a) Amounts may not sum due to rounding.

The following is a discussion of the consolidated results of operations for the three and nine months ended September 30, 2015 compared to the same periods in 2014:

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Operating revenues. Consolidated operating revenues for the quarter ended September 30, 2015 increased $50.0 million, or 5.9%, compared to the same quarter last year. Revenues in our Regulated Businesses segment rose $27.0 million, which was mainly attributable to increases in rates, infrastructure charges and increased demand, partially offset by decreased surcharges and balancing accounts in 2015. Revenues in our Market-Based Businesses segment rose $23.4 million, largely driven by incremental revenue from our military contracts due to increased construction type projects and the addition of two military bases in the second half of 2014 coupled with contract growth in our Homeowner Services ("HOS") line of business and revenues as a result of the Keystone Acquisition in the third quarter of 2015. For further information, see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated O&M increased by $22.3 million, or 6.5%, compared to the same period in 2014 which was primarily attributable to an increase of $21.0 million in O&M costs associated with our Market-Based Businesses segment, principally due to increased activity under our military contracts associated with the operating revenue increase discussed above, incremental costs in HOS resulting from contract growth and the addition of O&M costs as a result of the Keystone acquisition. For further information on the changes in our Regulated Businesses and Market-Based Businesses segments' O&M, see the respective "Operation and Maintenance" discussions within the "Segment Results" section below.

Depreciation and amortization. Depreciation and amortization expense increased by $4.4 million, or 4.1%, primarily as a result of additional utility plant placed in service.

Other income (expenses). Other expenses increased by $0.7 million, or 1.0%, compared to the same period in 2014. The increase is primarily due to an increase in interest expense, mainly as a result of a $550 million debt issuance in the third quarter of 2015, partially offset by higher allowance for funds used during construction in 2015.

Provision for income taxes. Our consolidated provision for income taxes increased $6.0 million, or 5.6%, to $113.2 million for the three months ended September 30, 2015, due to the increase in pre-tax income. The effective tax rate for the three months ended September 30, 2015 and 2014 was 39.4% and 40.6%, respectively. Included in the three months ended September 30, 2014 were $2.1 million of discrete tax charges associated with uncertain tax positions.

Loss from discontinued operations, net of tax. We disposed of our Terratec line of business, which was previously reported in our Market-Based Businesses segment, in the fourth quarter of 2014. These results were classified as discontinued operations for all periods presented. For the three months ended September 30, 2014, the loss from discontinued operations, net of tax, represents the operating results of Terratec for the period, costs associated with the then pending sale and an income tax valuation allowance.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Operating revenues. Consolidated operating revenues for the nine months ended September 30, 2015 increased $96.5 million, or 4.2%, compared to the same period last year. Revenues in our Market-Based Businesses segment rose $54.0 million, largely driven by incremental revenue from our military contracts due to increased construction type project activity and the addition of two military bases in the second half of 2014 coupled with contract growth in HOS and additional operating revenues attributable to the Keystone Acquisition. Revenues in our Regulated Businesses segment rose $43.5 million mainly attributable to rate increases, infrastructure charges and increased demand, partially offset by decreased surcharges and balancing accounts in 2015. For further information, see the respective "Operating Revenues" discussions within the "Segment Results" section below.

Operation and maintenance. Consolidated O&M increased by $19.7 million, or 2.0%, compared to the same period in 2014. This increase was primarily attributable to an additional $48.0 million in O&M costs in our Market-Based Businesses segment, principally due to increased activity related to our military contracts, as noted in the operating revenue discussion above, incremental costs in the HOS line of business and the addition of O&M costs as a result of the Keystone Acquisition. Partially offsetting the increase were lower O&M costs in our Regulated Businesses segment of $26.6 million from continued cost management, lower production and authorized recovery of costs as a result of the finalization of our California general rate case in the first quarter of 2015. Also, included in the 2014 results were incremental costs of $10.3 million associated with the Freedom Industries chemical spill, primarily included in operating supplies and services and other O&M expenses. For further information on the changes in our Regulated Businesses and Market-Based Businesses segments' O&M, see the respective "Operation and Maintenance" discussions within the "Segment Results" section below.

Depreciation and amortization. Depreciation and amortization expense increased by $9.1 million, or 2.9%, primarily as a result of additional utility plant placed in service.

General taxes. General taxes increased $5.9 million, or 3.3%, primarily due to incremental business and occupation taxes and higher property tax assessments for various subsidiaries in our Regulated Businesses segment.

Other income (expenses). Other expenses increased by $0.1 million, compared to the same period in 2014. The increase was primarily due to incremental interest expense from additional debt issuances, including the $550.0 million debt issuance in the third quarter of 2015. Partially offsetting the increases was incremental income as a result of the authorization through the California rate case of a sharing mechanism between shareholders and customers for prior chemical contamination settlement proceeds of $4.1 million and the recovery of the allowance for borrowed funds used during construction on authorized business transformation project costs.

Provision for income taxes. Our consolidated provision for income taxes increased $22.4 million, or 10.0%, to $247.2 million for the nine months ended September 30, 2015, due to the increase in pre-tax income. The effective tax rates for the nine months ended September 30, 2015 and 2014 were 39.6% and 40.1%, respectively. Included in the nine months ended September 30, 2014 were $2.0 million of discrete tax charges associated with uncertain tax positions.

Loss from discontinued operations, net of tax. We disposed of our Terratec line of business, which was previously reported in our Market-Based Businesses segment, in the fourth quarter of 2014. These results were classified as discontinued operations for all periods presented. The disposition of Terratec was finalized in the fourth quarter of 2014. For the nine months ended September 30, 2014, the loss from discontinued operations, net of tax, represents the operating results of Terratec for the period, the cost of the then pending sale and an income tax valuation allowance.

Segment Results

We have two reportable segments: the Regulated Businesses and the Market-Based Businesses segments. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses Segment for the periods indicated:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
	(In thousands)					
Operating revenues	$ 780,729	$ 753,701	$ 27,028	$ 2,082,950	$ 2,039,446	$ 43,504
Operation and maintenance expense	277,051	278,276	(1,225)	813,660	840,224	(26,564)
Operating expenses, net	437,964	434,912	3,052	1,290,551	1,302,298	(11,747)
Income from continuing operations before income taxes	283,632	258,539	25,093	616,530	555,985	60,545

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business generally is subject to state economic regulation and our results of operations are impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate.

Operating revenues increased by $27.0 million, or 3.6%, for the three months ended September 30, 2015 and increased by $43.5 million, or 2.1%, for the nine months ended September 30, 2015. The increase for the three months ended September 30, 2015 compared to the same period in 2014 is primarily due to incremental revenues of $18.6 million associated with higher demand. We attribute this increase to overall milder weather conditions in 2014 compared to 2015. In the third quarter of 2015, weather conditions varied across our regulated states. We experienced higher revenues from hot and dry conditions in our Northeast region which were offset by lower revenues from wet and milder conditions in our Central region. Also, contributing to the increase in revenue was $10.0 million attributable to rate increases, including infrastructure charges, obtained through rate authorizations for a number of our operating companies, and $2.7 million attributable to acquisitions and organic growth. The balance of the increase is mainly due to incremental revenues from other, sewer, fire and other operating revenues. Partially offsetting these increases was a $12.0 million reduction in revenues from balancing accounts, most of which was the result of the California drought and the corresponding reduction in production costs. Also, included in the $12.0 million reduction in revenues was a $5.1 million charge associated with the

July 2015 application filed by our California subsidiary with the CPUC which requested a change to the present rate design and the emergency conservation and rationing plan for water customers in certain areas within our Monterey county service district.

The increase for the nine months ended September 30, 2015 compared to the same period in 2014 is principally due to incremental revenues of approximately $27.6 million attributable to rate increases, including infrastructure surcharges. Also contributing to the increase was $18.0 million associated with higher demand, as described above, $4.5 million attributable to acquisitions and organic growth. The remaining increase is due to incremental revenues generated from other, sewer, fire and other operating revenues. Partially offsetting these increases were a $16.1 million reduction in revenues from balancing accounts primarily related to the California drought and corresponding reduction in production costs. Also, included in the $16.0 million reduction in revenues was a $5.1 million charge associated with the July 2015 application filed by our California subsidiary discussed above.

The following table sets forth information regarding the Regulated Businesses' revenues and billed water sales volume by customer class for the periods indicated:

	For the Three Months Ended September 30,							
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$ 434,393	$ 431,906	$ 2,487	0.6%	53,391	53,523	(132)	(0.2%)
Commercial	158,737	155,761	2,976	1.9%	24,259	23,758	501	2.1%
Industrial	35,540	35,349	191	0.5%	10,869	10,997	(128)	(1.2%)
Public and other	88,810	87,868	942	1.1%	14,142	14,453	(311)	(2.2%)
Other water revenues	15,151	12,458	2,693	21.6%	—	—	—	—
Billed water services	732,631	723,342	9,289	1.3%	102,661	102,731	(70)	(0.1%)
Unbilled water services	9,112	(6,012)	15,124	(251.6%)				
Total water service revenues	741,743	717,330	24,413	3.4%				
Wastewater service revenues	24,761	23,059	1,702	7.4%				
Other revenues	14,225	13,312	913	6.9%				
	$ 780,729	$ 753,701	$ 27,028	3.6%				

	For the Nine Months Ended September 30,							
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,154,700	$1,150,336	$ 4,364	0.4%	132,771	135,165	(2,394)	(1.8%)
Commercial	416,966	416,197	769	0.2%	61,276	61,839	(563)	(0.9%)
Industrial	98,530	100,337	(1,807)	(1.8%)	29,439	30,403	(964)	(3.2%)
Public and other	247,960	253,127	(5,167)	(2.0%)	38,868	40,372	(1,504)	(3.7%)
Other water revenues	31,341	21,057	10,284	48.8%	—	—	—	—
Billed water services	1,949,497	1,941,054	8,443	0.4%	262,354	267,779	(5,425)	(2.0%)
Unbilled water services	21,267	(8,973)	30,240	337.0%				
Total water service revenues	1,970,764	1,932,081	38,683	2.0%				
Wastewater service revenues	72,749	69,721	3,028	4.3%				
Other revenues	39,437	37,644	1,793	4.8%				
	$2,082,950	$2,039,446	$ 43,504	2.1%				

Water Services – Consistent with the discussion above, water service operating revenues for the three months ended September 30, 2015 totaled $741.7 million, a $24.4 million increase, or 3.4%, over the same period of 2014. For the nine months ended September 30, 2015, these revenues increased $38.7 million, or 2.0%, compared to the nine months ended September 30, 2014. As described above, the increases for both the three and nine months are primarily due to rate increases and infrastructure charges partially offset by a reduction in revenues attributable to balancing accounts. Also, contributing to the incremental revenue for the three months ended September 30, 2015 compared to the same period last year was higher demand for residential and commercial customers. The correlation between water service revenues and billed water sales volumes shown above is impacted by the California drought. California is experiencing a severe drought and in April 2015, the Governor of that state mandated water usage restrictions to reduce overall water usage by 25% in the state compared to 2013 levels. Our California customers are largely meeting the conservation targets. Revenue in California is decoupled from sales volume, aligning our water conservation goals with those of the state and our customers and therefore these usage reductions do not impact earnings. Excluding the impact of the volume reductions in California, volumes for our residential customers increased 2.2% and 0.1% for the three and nine months ended September 30, 2015, and commercial customers increased 4.5 % for the quarter and 0.9% for the nine months ended September 30, 2015. Also, the mix between billed and unbilled water revenue for the nine-month period ended September 30, 2015, compared to the same period in 2014, has changed. This change is principally the result of addressing the majority of delayed customer billings that existed at December 31, 2013, by billing those customers in the first quarter of 2014. The delayed billings resulted from the implementation of our Customer Information System in 2013.

Wastewater services – Our subsidiaries provide wastewater services in eleven states. Revenues from these services increased $1.7 million, or 7.4%, and $3.0 million, or 4.3%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, mainly as the result of adding additional systems through acquisitions.

Other revenues – Other revenues, which include reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and other similar items, increased $0.9 million, or 6.9%, for the three months ended September 30, 2015. The increase for the nine months ended September 30, 2015, of $1.8 million, or 4.8%, is primarily due to incremental revenues for late payment fees and reconnection fees partially offset by the inclusion in 2014 of $2.4 million of insurance proceeds for business interruption as a result of Hurricane Sandy.

Operation and maintenance expense. Operation and maintenance expense decreased $1.2 million, or 0.4%, and $26.6 million, or 3.2% for the three and nine months ended September 30, 2015, respectively, compared to the same period in 2014.

The following table provides information regarding operation and maintenance expense for the three and nine months ended September 30, 2015 and 2014, by major expense category:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
				(Dollars in thousands)				
Production costs	$ 79,657	$ 79,455	$ 202	0.3%	$ 215,661	$ 222,855	$ (7,194)	(3.2%)
Employee-related costs	105,537	106,672	(1,135)	(1.1%)	320,943	321,452	(509)	(0.2%)
Operating supplies and services	48,363	53,204	(4,841)	(9.1%)	143,543	163,460	(19,917)	(12.2%)
Maintenance materials and supplies	14,351	15,421	(1,070)	(6.9%)	50,401	53,581	(3,180)	(5.9%)
Customer billing and accounting	15,916	15,420	496	3.2%	44,631	44,707	(76)	(0.2%)
Other	13,227	8,104	5,123	63.2%	38,481	34,169	4,312	12.6%
Total	$ 277,051	$ 278,276	$ (1,225)	(0.4%)	$ 813,660	$ 840,224	$ (26,564)	(3.2%)

Production costs by major expense type were as follows:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Purchased Water	$ 32,767	$ 33,674	$ (907)	(2.7%)	$ 89,832	$ 93,332	$ (3,500)	(3.8%)
Fuel and Power	26,560	25,890	670	2.6%	69,272	71,025	(1,753)	(2.5%)
Chemicals	14,577	12,521	2,056	16.4%	36,533	35,316	1,217	3.4%
Waste Disposal	5,753	7,370	(1,617)	(21.9%)	20,024	23,182	(3,158)	(13.6%)
Total	$ 79,657	$ 79,455	$ 202	0.3%	$ 215,661	$ 222,855	$ (7,194)	(3.2%)

Production costs increased by $0.2 million for the three months ended September 30, 2015 compared to the same period last year. Chemical costs increased by $2.1 million in the quarter as 2014 included recognition of prior contamination proceeds authorized in a rate case for one of our operating subsidiaries. This increase was offset by lower waste disposal costs due to a change in the amount allowed by a cost recovery mechanism in one of our operating companies.

For the nine months ended September 30, 2015, production costs decreased by $7.2 million, or 3.2% compared to the same period last year and was primarily due to decreases in purchased water, principally from lower usage in our California subsidiary, fuel and power due to lower fuel and natural gas prices, and lower waste disposal costs partially offset by higher chemical expenses. Purchased water and fuel and power costs in California are recorded in a balancing account and therefore do not impact earnings. The decrease in waste disposal costs was attributable to the aforementioned change in the amount allowed by a cost recovery mechanism.

The following table provides information with respect to components of employee-related costs for the three and nine months ended September 30, 2015 and 2014:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Salaries and wages	$ 78,653	$ 81,456	$ (2,803)	(3.4%)	$ 238,133	$ 245,107	$ (6,974)	(2.8%)
Pensions	7,428	6,648	780	11.7%	22,494	20,268	2,226	11.0%
Group insurance	14,843	13,759	1,084	7.9%	45,648	41,889	3,759	9.0%
Other benefits	4,613	4,809	(196)	(4.1%)	14,668	14,188	480	3.4%
Total	$ 105,537	$ 106,672	$ (1,135)	(1.1%)	$ 320,943	$ 321,452	$ (509)	(0.2%)

Overall, employee-related costs decreased for both the three and nine months ended September 30, 2015 compared to the same periods in 2014. Salaries and wages decreased for the three and nine months ended September 30, 2015 due to a reduction in headcount and an increase in capital projects which in turn resulted in higher capitalization rates. Also contributing to the reduction in costs was lower severance costs in 2015 as the 2014 costs included incremental costs associated with the restructuring of certain organizational functions. Pension costs and postretirement benefit costs (which is included in the group insurance line above) increased for both the quarter and nine months principally due to the adoption of new mortality assumptions and a decrease in the discount rate, which resulted in increased plan obligations.

Operating supplies and services include expenses for office operation, legal and professional services, transportation expenses, and information systems and other office equipment rental charges. The following table provides information with respect to components of operating supplies and services for the three and nine months ended September 30, 2015 compared to the same periods in 2014.

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Contracted services	$ 20,070	$ 22,711	$ (2,641)	(11.6%)	$ 60,569	$ 66,173	$ (5,604)	(8.5%)
Office supplies and services	11,349	11,382	(33)	(0.3%)	32,500	34,538	(2,038)	(5.9%)
Transportation	4,746	4,862	(116)	(2.4%)	12,345	15,143	(2,798)	(18.5%)
Rents	3,316	3,678	(362)	(9.8%)	10,850	11,509	(659)	(5.7%)
Other	8,882	10,571	(1,689)	(16.0%)	27,279	36,097	(8,818)	(24.4%)
Total	$ 48,363	$ 53,204	$ (4,841)	(9.1%)	$ 143,543	$ 163,460	$ (19,917)	(12.2%)

The decrease for the three months ended September 30, 2015 was primarily due to lower contracted services and conservation expense. The decrease for the nine months ended September 30, 2015 compared to the same period in 2014 was primarily due to a reduction in contracted services, lower transportation costs attributable to lower fuel prices and leased vehicle costs, incremental costs in 2014 associated with the Freedom Industries chemical spill in West Virginia of $2.7 million and decreased condemnation-related costs. The decrease for the nine months ended September 30, 2015 also included a $3.2 million adjustment in the first quarter of 2015 attributable to the recovery of previously expensed business transformation costs as a result of the finalization of our California rate case.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, decreased $1.1 million, or 6.9%, and $3.2 million, or 5.9%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The decrease for the nine months is primarily due to lower paving, backfilling and other repair costs. These repair costs were higher in the first quarter of 2014 as compared to the same period in 2015 due to higher than normal main breaks as a result of the abnormally severe winter weather conditions experienced in certain states.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. The increase for both the three and nine months ended September 30, 2015 compared to the comparable periods in the prior year was primarily driven by increased casualty insurance costs in the third quarter of 2015, as a result of an increase in historical claims experience resulting in premium adjustments. The premium adjustments are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature.

Operating expenses. The increase in operating expenses for the three months ended September 30, 2015 is principally due to higher depreciation and amortization expense from additional utility plant placed in service partially offset by the decrease in operation and maintenance expense explained above and lower general taxes mainly due to decreased property taxes for certain of our operating companies. The decrease in the nine months ended September 30, 2015 compared to the same period in the prior year is mainly due to the decrease in operation and maintenance expense explained above offset by higher depreciation and amortization expense from additional utility plant placed in service and incremental general taxes primarily due to increased property and gross receipts taxes for certain of our operating companies.

Market-Based Businesses

The following table provides financial information for our Market-Based Businesses segment for the periods indicated:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
	(In thousands)					
Operating revenues	$ 120,373	$ 96,980	$ 23,393	$ 307,822	$ 253,857	$ 53,965
Operation and maintenance expense	98,360	77,401	20,959	252,480	204,460	48,020
Operating expenses, net	101,573	79,915	21,658	260,449	212,075	48,374
Income from continuing operations before income taxes	20,666	17,634	3,032	50,460	43,593	6,867

Operating revenues. Revenues for the three and nine months ended September 30, 2015 increased $23.4 million and $54.0 million, respectively, compared to the same periods in 2014, as a result of incremental revenues in our MSG and HOS lines of business and from the Keystone Acquisition. For the three and nine months ended September 30, 2015, MSG revenue increased $10.9 million and $35.4 million, respectively, primarily from additional construction project activities and the addition of two new military contracts, Hill Air Force Base and Picatinny Arsenal, in the second half of 2014. HOS revenues increased $3.8 million and $10.8

million for the three and nine months ended September 30, 2015, respectively, principally from contract growth, mainly through our New York City contracts and expansion into other geographic areas. Also, contributing to the increase for both the three and nine months ended September 30, 2015 was incremental revenues of $10.0 million related to the Keystone Acquisition.

Operation and maintenance. Operation and maintenance expense increased $21.0 million, or 27.1%, and $48.0 million, or 23.5% for the three and nine months ended September 30, 2015, respectively.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2015	2014	Increase (Decrease)	Percentage	2015	2014	Increase (Decrease)	Percentage
				(Dollars in thousands)				
Production costs	$ 9,136	$ 8,511	$ 625	7.3%	$ 27,052	$ 26,372	$ 680	2.6%
Employee-related costs	19,820	15,993	3,827	23.9%	52,655	45,069	7,586	16.8%
Operating supplies and services	53,273	38,836	14,437	37.2%	126,250	93,518	32,732	35.0%
Maintenance materials and supplies	14,016	12,443	1,573	12.6%	41,453	34,753	6,700	19.3%
Other	2,115	1,618	497	30.7%	5,070	4,748	322	6.8%
Total	$ 98,360	$ 77,401	$ 20,959	27.1%	$ 252,480	$ 204,460	$ 48,020	23.5%

As noted in the table above, employee-related costs increased $3.8 million for the quarter and $7.6 million year-to-date compared to the prior year periods. The Keystone Acquisition added $3.1 million in employee-related costs for both the quarter and the nine months ended September 30, 2015. The year-to-date increase also includes incremental costs associated with construction-type activities and the two new military contracts.

Operating supplies and services increased $14.4 million and $32.7 million, for the three and nine months ended September 30, 2015, compared to the same periods in the prior year, mainly corresponding to contract growth in both the MSG and HOS lines of business, as well as military construction project activities. Also contributing to the increase was the acquisition of Keystone, which added $6.1 million to operating supplies and services for both the three and nine months ended September 30, 2015.

Maintenance materials and supplies increased $6.7 million for the year-to-date period primarily from higher HOS claim costs, which are associated with new contracts.

Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” contained in Part II, Item 7 of our Form 10-K.

We rely on our revolving credit facility, the capital markets and our cash flows from operations to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and, to the extent necessary, our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through American Water Capital Corp. (“AWCC”), our wholly owned financing subsidiary, issue commercial paper, which is supported by an unsecured revolving credit facility. Indebtedness under the credit facility is considered “debt” for purposes of a support agreement between American Water and AWCC, which serves as a functional equivalent of a guarantee by American Water of AWCC’s payment obligations under the credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and, from time to time, for direct borrowings.

On June 30, 2015, we, AWCC and the lenders amended and restated our outstanding credit agreement, dated as of October 29, 2012, associated with the revolving credit facility, to extend the expiration date of the facility from October 2018 to June 2020 and to allow AWCC to request to extend further the term of the credit facility for up to two one-year periods. An extension request must satisfy certain conditions and receive approval of the lenders, as set forth in the agreement. The financial covenants with respect to the credit facility remained unchanged.

As of September 30, 2015, AWCC had no outstanding borrowings and $83.4 million of outstanding letters of credit under the revolving credit facility. As of September 30, 2015, AWCC had $1.2 billion available under the credit facility to fulfill our short-term liquidity needs, to issue letters of credit and support $379.9 million in outstanding commercial paper. We can provide no assurances that the lenders will meet their existing commitments to AWCC under the credit facility or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

As noted in our Form 10-K, in February 2015, our Board of Directors authorized an anti-dilutive common stock repurchase program to mitigate the dilutive effect of shares issued through our dividend reinvestment, employee stock purchase and executive compensation programs. This program allows us to purchase up to 10 million shares of our common stock over an unrestricted period of time. We may effect repurchases in the open market or through privately negotiated transactions. We commenced making purchases under this program in April 2015, and through September 30, 2015, we have repurchased an aggregate of 750 thousand shares.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from operating activities for the nine months ended September 30, 2015 were $855.6 million compared to $840.3 million for the nine months ended September 30, 2014.

The following table provides a summary of the major items affecting our cash flows from operating activities for the nine months ended September 30, 2015 and 2014:

	For the Nine Months Ended September 30,	
	2015	**2014**
	(In thousands)	
Net income	$ 377,012	$ 329,607
Add (subtract):		
Non-cash activities (1)	589,405	576,940
Changes in working capital (2)	(70,804)	(30,502)
Pension and postretirement healthcare contributions	(39,995)	(35,783)
Net cash flows provided by operations	$ 855,618	$ 840,262

(1) Includes depreciation and amortization, deferred income taxes and amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, gain on asset dispositions and purchases, pension and non-pension postretirement benefits expense and other non-cash, net. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenues, taxes accrued (including income taxes), accounts payable and accrued expenses and other current assets and liabilities, net.

The increase in cash flows from operating activities during the nine months ended September 30, 2015, as compared to the same period in 2014, reflects higher net income and changes in working capital. The decrease in working capital for the nine months ended September 30, 2015 compared to the same period in the prior year is principally the result of higher cash collections for our Regulated Businesses in the first quarter of 2014, as we delayed some 2013 billings to the first quarter of 2014 when we implemented our new customer information system in 2013. Also, contributing to the decline was a reduction in cash collections from our California utility customers of approximately $23 million due to the continued drought in California. The amounts are collected in balancing accounts and are generally recovered over 12 to 36 months.

Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities for the nine months ended September 30, 2015 and 2014:

	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(In thousands)	
Net capital expenditures	$ (791,079)	$ (664,871)
Proceeds from sale of assets	4,985	804
Acquisitions and related costs	(175,567)	(6,053)
Other investing activities, net (1)	(82,321)	(51,221)
Net cash flows used in investing activities	$ (1,043,982)	$ (721,341)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds restricted.

The increase in capital expenditures is principally due to an increase in planned expenditures compared to the prior year and less harsh winter conditions in the first quarter of 2015 compared to the same period in 2014 in certain regions of our Regulated Businesses, which allowed us to increase our capital improvements during the nine months ended September 30, 2015.

The increase in cash utilized for acquisitions during the first nine months of 2015 compared to the same period in 2014 is principally due to the purchase of Keystone and two regulated systems, the Borough of Haddonfield, New Jersey's water and wastewater systems and the City of Arnold, Missouri's wastewater system.

We are currently considering a plan to construct a new corporate headquarters to consolidate our support services and certain of our Market-Based Businesses employees within a single location. We are considering several alternatives for the location of the new headquarters. The cost of construction, which would take several years to complete, is currently estimated to be up to $165 million, depending on the location selected and exclusive of any tax incentives that the Company may receive.

Cash Flows from Financing Activities

The following table provides information regarding cash flows provided by (used in) financing activities for the nine months ended September 30, 2015 and 2014:

	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(In thousands)	
Proceeds from long-term debt	$ 563,727	$ 500,497
Repayments of long-term debt	(88,401)	(137,939)
Repayments of short-term borrowings	(70,015)	(316,328)
Dividends paid	(177,664)	(160,848)
Anti-dilutive share repurchase	(39,257)	
Other financing activities, net (1)	52,118	42,861
Net cash flows provided by (used in) financing activities	$ 240,508	$ (71,757)

(1) Includes proceeds from issuance of common stock under various employee stock plans and our dividend reinvestment plan, advances and contributions for construction, net of refunds, debt issuance costs and tax benefits realized from equity compensation.

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market and general economic conditions. In addition, new infrastructure may be financed with customer advances (net of refunds) and contributions in aid of construction.

Based on the liquidity and capital needs of American Water and our regulated subsidiaries, AWCC borrows funds on a short-term basis and through intercompany loans, provides the proceeds of those borrowings to the regulated subsidiaries and American Water. The regulated subsidiaries and American Water are obligated to pay to AWCC their respective portion of AWCC's debt service obligations. Because American Water parent borrowings are not a source of capital for the Company's regulated subsidiaries, the Company is not able to recover the interest charges on its debt through regulated water and wastewater rates.

We typically utilize commercial paper to meet our short-term liquidity needs, as commercial paper borrowings have historically been a more flexible and lower cost option compared to borrowings under our revolving credit facility. However, we are able to utilize our revolving credit facility to the extent necessary to complement our borrowings in the commercial paper market. In the event of disruptions in the money market sector of the debt capital markets or in response to economic conditions generally, borrowings under our revolving credit facility may be more efficient and a lower cost alternative to commercial paper.

The following long-term debt was issued during the first nine months of 2015:

Company	**Type**	**Rate**	**Maturity**	**Amount**
American Water Capital Corp. (1)	Senior notes—fixed rate	3.40%-4.30%	2025-2045	$ 550,000
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	1.00%-1.56%	2022-2032	13,727
Total issuances				$ 563,727

(1) On August 13, 2015, AWCC completed an offering of its senior fixed rate notes. Proceeds from this offering were used to lend funds to the Company and its regulated utilities, to refinance commercial paper borrowings and to finance redemptions of long-term debt.

The following long-term debt was retired through sinking fund provisions or payment at maturity during the first nine months of 2015:

Company	**Type**	**Rate**	**Maturity**	**Amount (In thousands)**
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	1.79%-5.25%	2015-2031	$ 36,442
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-7.45%	2015-2041	50,733
Other American Water subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other American Water subsidiaries	Capital lease payments	12.23%	2026	26
Total retirements and redemptions				$ 88,401

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other transactions.

Credit Facilities and Short-Term Debt

Short-term debt, consisting of commercial paper, net of discount, amounted to $379.9 million at September 30, 2015.

The following table provides information as of September 30, 2015 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

	Credit Facility Commitment	**Available Credit Facility Capacity**	**Letter of Credit Sub-limit**	**Available Letter of Credit Capacity**	**Outstanding Commercial Paper (Net of Discount)**	**Credit Line Borrowings**
	(In thousands)					
September 30, 2015	$ 1,250,000	$ 1,166,591	$ 150,000	$ 66,591	$ 379,944	$ —

The weighted-average interest rate on short-term borrowings for the three months ended September 30, 2015 and 2014 was approximately 0.44% and 0.29%, respectively, and 0.49% and 0.30% for the nine months ended September 30, 2015 and 2014, respectively.

Capital Structure

The following table provides information regarding our capital structure for the periods presented:

	At September 30, 2015	At December 31, 2014
Total common stockholders' equity	45%	45%
Long-term debt and redeemable preferred stock at redemption value	52%	50%
Short-term debt and current portion of long-term debt	3%	5%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance with these covenants, such an event may create an event of default under the debt agreement and we, or our subsidiaries, may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements under debt agreements with respect to $8.0 million of outstanding debt. We do not believe this event will materially impact us. Our long-term debt indentures also contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Our failure to comply with any of these covenants could accelerate repayment obligations.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. As of September 30, 2015, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by our securities ratings. We primarily access the debt capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

The following table shows the Company's securities ratings as of September 30, 2015:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	A3	A
Commercial paper	P2	A-1

On August 7, 2015, Moody's upgraded the long-term ratings for American Water and AWCC from Baa1 to A3. At the same time, Moody's also affirmed AWCC's commercial paper rating at P2. Moody's rating outlook for American Water and AWCC remains as stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of a downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if our debt is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to reference such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

Dividends

On September 1, 2015, we paid a cash dividend of $0.34 per share to the Company's shareholders of record as of August 10, 2015.

On October 30, 2015, our board of directors declared a quarterly cash dividend payment of $0.34 per share payable on December 1, 2015 to the Company's shareholders of record as of November 9, 2015. In 2014, a quarterly cash dividend was declared on September 19, 2014, which was prior to the end of the quarter, with a payment date of December 1, 2014.

Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates," in our Form 10-K for a discussion of our critical accounting policies.

Recent Accounting Pronouncements

See Note 2: New Accounting Pronouncements to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes to our exposure to market risk since December 31, 2014. For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2015.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2015, our disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in our Form 10-K in Part I, Item 3, “Legal Proceedings,” and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 in Part II, Item 1, “Legal Proceedings.” Capitalized terms used but not otherwise defined herein have the meanings set forth in our Form 10-K.

Alternative Water Supply in Lieu of Carmel River Diversions

Regional Desalination Project

On April 15, 2015, the CPUC issued a final decision approving, in part, the settlement agreement among California-American Water Company (“Cal Am”), the Monterey County Water Resource Agency (“MCWRA”) and the County of Monterey, by authorizing Cal Am’s recovery of $1.9 million of costs advanced to MCWRA, plus interest and fees under the reimbursement agreement and credit line agreement among the Marina Coast Water District (“MCWD”), MCWRA and Cal Am. These agreements, along with the water purchase agreement and other related ancillary agreements among MCWD, MCWRA and Cal Am, relate to the regional desalination project (“RDP”) involving the proposed construction of a desalination facility in the City of Marina. The CPUC denied without prejudice the additional recovery of approximately $765,000 because there was insufficient information for the CPUC to determine the reasonableness of such amount. Cal Am is permitted to file another application for recovery at a future date. On April 17, 2015, MCWD filed an application with the CPUC for a rehearing of the settlement approval. On October 22, 2015, the CPUC denied MCWD’s application for rehearing.

On April 29, 2015, the San Francisco County Superior Court issued a final decision on the Complaint for Declaratory Relief filed by Cal Am against MCWRA and MCWD regarding the validity of the RDP agreements. In its final decision, the court ruled that four of the five RDP agreements are void. On the basis of previous rulings and dismissals, on June 1, 2015, the court entered its judgment declaring that four of the five RDP agreements are void and the credit line agreement is not void. On June 30, 2015, MCWD filed its notice of appeal of the court’s judgment. On September 8, 2015, Cal Am and MCWRA filed a joint motion to dismiss this appeal, and on October 7, 2015 the court issued an order deferring a ruling on the motion to dismiss until the underlying appeal is heard and ruled upon. Cal Am and MCWRA have also filed post-judgment motions to recover trial costs and attorneys’ fees arising out of the Complaint for Declaratory Relief. In July and August 2015, the court awarded Cal Am approximately $1.4 million in costs and attorneys’ fees. On September 23, 2015, MCWD filed a notice of appeal of the award of attorneys’ fees.

In July 2015, Cal Am and MCWRA filed an Amended Complaint (the “Cal Am July 2015 Complaint”) in San Francisco County Superior Court, against MCWD and RMC Water and Environment, a private engineering consulting firm (“RMC”). Cal Am seeks to recover compensatory, consequential and incidental damages associated with the failure of the RDP in an amount to be proven at trial, which have been alleged in the Cal Am July 2015 Complaint to be in excess of $10.0 million, as well as punitive and treble damages, statutory penalties and attorneys’ fees.

On July 30, 2015, MCWD filed a Complaint (the “MCWD July 2015 Complaint”) in San Francisco County Superior Court against Cal Am, MCWRA and certain unidentified individual defendants. MCWD is seeking to recover compensatory damages associated with the failure of the RDP in an amount to be proven at trial, which have been alleged in the MCWD July 2015 Complaint to be at least $18.0 million, as well as exemplary damages and attorneys’ fees. Cal Am has not yet responded to the MCWD July 2015 Complaint, but it intends to contest vigorously the causes of action stated against it.

On August 12, 2015, RMC filed a Complaint for Damages (the “RMC Complaint”) in San Francisco County Superior Court against Cal Am and MCWRA seeking to recover damages associated with the failure of the RDP of at least $0.7 million, plus an unspecified amount of punitive damages against Cal Am. Cal Am has not yet responded to the RMC Complaint, but it intends to contest vigorously the causes of action stated against it.

Monterey Peninsula Water Supply Project

On October 6, 2015, the California Coastal Commission approved an amendment to Cal Am’s permits to operate the test slant well on the Cemex property.

A one-day trial on MCWD’s December 11, 2014 Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief (the “MCWD December 2014 Petition”) and the Ag Land Trust Petition was conducted on July 23, 2015 in Santa Cruz County Superior Court. The court denied both petitions in their entirety. On August 31, 2015, MCWD filed a notice of appeal regarding the court’s denial of the MCWD December 2014 Petition. On October 1, 2015, pursuant to a stipulation among the parties, the court entered an order staying a hearing on the January 2015 Petition against the State Lands Commission until this appeal is resolved.

In addition, there have been delays in the initial timetable for the preparation and certification by the CPUC of an environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. On August 19, 2015, the statutory deadline for resolving the application related to the Water Supply Project was extended to December 31, 2016. Cal Am estimates that the earliest date by which the Water Supply Project could be completed is sometime in 2018. There can be no assurance that Cal Am's application for the Water Supply Project will be approved or that the Water Supply Project will be completed on a timely basis, if ever.

West Virginia Elk River Freedom Industries Chemical Spill

As previously disclosed, four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated class action complaint for those cases ("Federal action") was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with crude 4-methylcyclohexane methanol ("MCHM") and provided by West Virginia-American Water Company ("WVAWC") in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The amended consolidated complaint names several individuals and corporate entities as defendants, including American Water Works Service Company, Inc. ("AWWSC"), WVAWC and the Company. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety of alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease.

On April 9, 2015, the court in the Federal action denied a motion to dismiss all claims against the Company for lack of personal jurisdiction. A separate motion to dismiss filed by AWWSC and WVAWC (and joined by the Company) asserting various legal defenses in the Federal action was resolved by the court on June 3, 2015. The court dismissed three causes of action but denied the motion to dismiss with respect to the remaining causes of actions and allowed the plaintiffs to continue to pursue the various claims for damages alleged in their amended consolidated complaint.

On July 6, 2015, the plaintiffs filed a motion seeking certification of a class defined to include persons who resided in dwellings served by WVAWC's Kanawha Valley Treatment Plant ("KVTP") on January 9, 2014, persons who owned businesses served by the KVTP on January 9, 2014, and hourly employees who worked for such businesses. The plaintiffs sought a class-wide determination of liability against the American Water Defendants, among others, and of damages to the three groups of plaintiffs as a result of the "Do Not Use" order issued after the Freedom Industries spill.

A court-directed mediation was held at the end of September 2015 with the assistance of private mediators. Representatives of the American Water Defendants, Eastman Chemical, the Federal action plaintiffs, and the plaintiffs in the 53 state court cases removed to Federal court, as well as insurance carriers for certain of the defendants, participated in the mediation. No resolution was reached and no further mediation discussions have been scheduled to date.

On October 8, 2015, the court in the Federal action granted in part and denied in part the plaintiffs' class certification motion. The court certified a class addressing certain liability elements of the negligence claims against Eastman Chemical and of the negligence and breach of contract claims against the American Water Defendants. However, the court granted the joint motion by defendants to exclude certain expert testimony, disallowing the testimony of plaintiffs' economic damages experts, and denied class certification as to any damages, including punitive damages. Thus, determination or quantification of damages, if any, would be made in subsequent proceedings on an individual basis.

General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the “Risk Factors” in our Form 10-K, and our other public filings, which could materially affect our business, financial condition or future results. Other than as set forth below, there have been no material changes from risk factors previously disclosed in “Risk Factors” in our Form 10-K.

Keystone’s operations may expose the Company to substantial costs and liabilities with respect to environmental matters.

Keystone’s operations, and the operation generally of natural gas and oil exploration and production facilities by Keystone’s customers, are subject to stringent federal, state and local laws, rules, regulations and ordinances governing the release of materials into the environment or otherwise relating to environmental protection. These provisions may require the acquisition by Keystone of permits or licenses before providing its services to customers, prohibit the release of substances defined thereunder as hazardous in connection with these activities, and impose substantial liabilities for the violation thereof that may result from these operations. Failure to comply with these laws, rules, regulations and ordinances may result in substantial environmental remediation and other costs to Keystone, the assessment of administrative, civil and criminal penalties or the issuance of injunctions restricting or prohibiting certain activities. Under existing environmental laws and regulations, Keystone could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether the release resulted from its operations, or whether its operations were in compliance with all applicable laws at the time they were performed. While the Company has attempted to structure and maintain its ownership and control of Keystone’s operations in such a way as to insulate the Company, its regulated subsidiaries and its other market-based operations from any liabilities associated with Keystone’s operations, including liabilities for environmental matters, there can be no assurance that such efforts will be sufficient to prevent the Company from incurring liability for the operations of Keystone.

Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly water or wastewater handling, storage, transport, disposal or cleanup requirements could require Keystone to make significant expenditures to maintain compliance with such requirements, and may otherwise have a material adverse effect on Keystone’s competitive position, financial condition and results of operations.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.

Our total assets include $1.3 billion of goodwill at September 30, 2015. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003, the acquisition of E’Town Corporation by a predecessor to our previous owner in 2001, and the acquisition of Keystone which was completed in July 2015. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and other intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance or the performance of an acquired business. These market conditions could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, market price performance of our common stock that compares unfavorably to our peer companies, decreases in control premiums, or, with respect to our Keystone operations, fluctuations in the level of exploration and production activities in the Marcellus and Utica shale regions served by Keystone. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of goodwill would result in a charge to income in the period in which the impairment occurred, which may negatively affect our reported results of operations and total capitalization. The effects of any such impairment could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2015, the Company announced that its Board of Directors authorized an anti-dilutive common stock repurchase program to mitigate the dilutive effect of shares issued through the Company’s dividend reinvestment, employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company has also entered into a Rule 10b5-1 share repurchase plan with a broker, which allows the Company to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the Rule 10b5-1 parameters at its discretion.

The following table includes shares of common stock acquired by the Company during the quarter ended September 30, 2015.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
July 1 - July 31, 2015	154,957	$50.85	154,957	9,595,043
August 1 - August 31, 2015	181,726	$52.79	181,726	9,413,317
September 1 - September 29, 2015	163,317	$52.41	163,317	9,250,000
Total	500,000	$52.34	500,000	

(a) An anti-dilutive common stock repurchase program was announced by the Company in February 2015 and allows the Company to purchase up to 10 million shares over an unrestricted period of time. Through September 30, 2015, the Company has repurchased 750,000 shares under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed August 5, 2015).
4.1	Officers' Certificate of American Water Capital Corp., dated August 13, 2015, establishing the terms of its 4.300% Senior Notes due 2045 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed August 13, 2015).
4.2	Officers' Certificate of American Water Capital Corp., dated August 14, 2014, establishing the terms of its 3.400% Senior Notes due 2025 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, File No. 001-34028, filed August 14, 2014).
4.3	Officers' Certificate of American Water Capital Corp., dated August 13, 2015, authorizing the issuance of $225.0 million aggregate principal amount of its 3.400% Senior Notes due 2025 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, File No. 001-34028, filed August 13, 2015).
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
*101	The following financial statements from American Water Works Company, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, filed with the Securities and Exchange Commission on November 4, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* Filed herewith.
** Furnished herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 4th day of November, 2015.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

By /s/ Susan N. Story
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

By /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ Mark Chesla
Mark Chesla
Vice President and Controller
(Principal Accounting Officer)

EXHIBITS INDEX

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* Filed herewith.
** Furnished herewith.

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 4, 2015

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Linda G. Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting,

to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 4, 2015

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Susan N. Story, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

November 4, 2015

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-

Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

November 4, 2015

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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, 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

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

Class	Outstanding at May 1, 2014
Common Stock, $0.01 par value per share	**179,018,709 shares**

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AMERICAN WATER WORKS COMPANY, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 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)

	March 31, 2014	December 31, 2013
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $3,956,852 at March 31 and $3,894,326 at December 31	$ 12,328,427	$ 12,244,359
Nonutility property, net of accumulated depreciation of $233,997 at March 31 and $228,465 at December 31	141,554	146,803
Total property, plant and equipment	12,469,981	12,391,162
Current assets		
Cash and cash equivalents	30,755	26,964
Restricted funds	28,585	28,505
Accounts receivable	259,306	244,568
Allowance for uncollectible accounts	(35,700)	(33,953)
Unbilled revenues	193,269	217,147
Income taxes receivable	10,100	5,778
Materials and supplies	35,242	32,973
Deferred income taxes	134,833	18,609
Other	31,604	28,408
Total current assets	687,994	568,999
Regulatory and other long-term assets		
Regulatory assets	847,788	858,465
Restricted funds	912	754
Goodwill	1,208,065	1,207,764
Other	60,081	60,998
Total regulatory and other long-term assets	2,116,846	2,127,981
TOTAL ASSETS	$ 15,274,821	$ 15,088,142

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)

	March 31, 2014	December 31, 2013
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 178,976 shares outstanding at March 31 and 178,379 at December 31)	$ 1,790	$ 1,784
Paid-in-capital	6,272,277	6,261,396
Accumulated deficit	(1,427,809)	(1,495,698)
Accumulated other comprehensive income	(35,151)	(34,635)
Treasury stock	(10,020)	(5,043)
Total common stockholders' equity	4,801,087	4,727,804
Long-term debt		
Long-term debt	5,208,668	5,212,881
Redeemable preferred stock at redemption value	15,971	17,177
Total capitalization	10,025,726	9,957,862
Current liabilities		
Short-term debt	638,227	630,307
Current portion of long-term debt	14,901	14,174
Accounts payable	183,839	264,589
Taxes accrued	54,129	32,400
Interest accrued	93,655	52,087
Other	212,948	241,976
Total current liabilities	1,197,699	1,235,533
Regulatory and other long-term liabilities		
Advances for construction	370,938	375,729
Deferred income taxes	1,997,673	1,840,697
Deferred investment tax credits	26,059	26,408
Regulatory liabilities	380,398	373,319
Accrued pension expense	103,342	108,542
Accrued postretirement benefit expense	88,385	88,419
Other	37,688	38,929
Total regulatory and other long-term liabilities	3,004,483	2,852,043
Contributions in aid of construction	1,046,913	1,042,704
Commitments and contingencies (See Note 10)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 15,274,821	$ 15,088,142

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 March 31, 2014	Three Months Ended March 31, 2013
Operating revenues	$ 681,946	$ 636,137
Operating expenses		
Operation and maintenance	329,275	312,203
Depreciation and amortization	106,078	99,649
General taxes	60,767	60,146
(Gain) loss on asset dispositions and purchases	(270)	(94)
Total operating expenses, net	495,850	471,904
Operating income	186,096	164,233
Other income (expenses)		
Interest, net	(73,560)	(78,114)
Allowance for other funds used during construction	2,201	3,396
Allowance for borrowed funds used during construction	1,483	1,653
Amortization of debt expense	(1,673)	(1,581)
Other, net	(1,541)	(776)
Total other income (expenses)	(73,090)	(75,422)
Income before income taxes	113,006	88,811
Provision for income taxes	44,883	31,168
Net income	$ 68,123	$ 57,643
Other comprehensive income (loss), net of tax:		
Pension plan amortized to periodic benefit cost:		
Prior service cost, net of tax of $27 and $28, respectively	41	43
Actuarial loss, net of tax of $(5) and $1,424, respectively	(7)	2,228
Foreign currency translation adjustment	(550)	(366)
Other comprehensive income (loss)	(516)	1,905
Comprehensive income	$ 67,607	$ 59,548
Basic earnings per share	$ 0.38	$ 0.32
Diluted earnings per share	$ 0.38	$ 0.32
Average common shares outstanding during the period		
Basic	178,539	177,327
Diluted	179,457	178,465
Dividends declared per common share	$ 0.00	$ 0.00

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)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 68,123	$ 57,643
Adjustments		
Depreciation and amortization	106,078	99,649
Provision for deferred income taxes	44,919	29,446
Amortization of deferred investment tax credits	(349)	(376)
Provision for losses on accounts receivable	7,580	3,041
Allowance for other funds used during construction	(2,201)	(3,396)
Gain on asset dispositions and purchases	(270)	(94)
Pension and non-pension postretirement benefits	6,018	19,518
Stock-based compensation expense	2,711	2,042
Other, net	9,624	(8,160)
Changes in assets and liabilities		
Receivables and unbilled revenues	3,307	18,775
Taxes receivable, including income taxes	(4,322)	(3,543)
Other current assets	(9,654)	(12,803)
Pension and non-pension postretirement benefit contributions	(10,714)	(29,766)
Accounts payable	(59,140)	(37,278)
Taxes accrued, including income taxes	21,729	15,597
Interest accrued	41,568	47,291
Change in book overdraft	22,089	(21,960)
Other current liabilities	(2,222)	(26,001)
Net cash provided by operating activities	244,874	149,625
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(192,466)	(213,086)
Acquisitions	(2,279)	(2,836)
Proceeds from sale of assets	243	280
Removal costs from property, plant and equipment retirements, net	(10,460)	(10,721)
Net funds released	(238)	(1,347)
Net cash used in investing activities	(205,200)	(227,710)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	0	1,378
Repayment of long-term debt	(2,192)	(2,392)
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	(221,000)	0
Net short-term borrowings with maturities less than three months	193,920	63,801
Proceeds from issuances of employee stock plans and DRIP	8,199	8,141
Advances and contributions for construction, net of refunds of $5,277 and $4,477 at March 31, 2014 and 2013, respectively	1,358	5,105
Redemption of preferred stocks	(1,200)	(1,200)
Dividends paid	(49,968)	0
Net cash (used in) provided by financing activities	(35,883)	74,833
Net increase (decrease) in cash and cash equivalents	3,791	(3,252)
Cash and cash equivalents at beginning of period	26,964	24,433
Cash and cash equivalents at end of period	$ 30,755	$ 21,181
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	$ 109,464	$ 81,455
Non-cash financing activity:		
Advances and contributions	$ 3,526	$ 2,756

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 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**	**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	68,123	0	0	0	0	68,123
Direct stock reinvestment and purchase plan, net of expense of $8	10	0	430	0	0	0	0	0	430
Employee stock purchase plan	25	0	1,076	0	0	0	0	0	1,076
Stock-based compensation activity	562	6	9,375	(175)	0	(118)	(4,977)	0	4,229
Other comprehensive loss, net of tax of $22	0	0	0	0	(516)	0	0	0	(516)
Dividends	0	0	0	(59)	0	0	0	0	(59)
Balance at March 31, 2014	178,976	$ 1,790	$ 6,272,277	$ (1,427,809)	$ (35,151)	(250)	$ (10,020)	$ 0	$ 4,801,087

	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**	**Total Stockholders' Equity**
Balance at December 31, 2012	176,988	$ 1,770	$ 6,222,644	$ (1,664,955)	$ (116,191)	0	$ 0	$ 1,720	$ 4,444,988
Net income	0	0	0	57,643	0	0	0	0	57,643
Direct stock reinvestment and purchase plan, net of expense of $5	10	0	387	0	0	0	0	0	387
Employee stock purchase plan	25	0	989	0	0	0	0	0	989
Stock-based compensation activity	651	7	8,795	(9)	0	(132)	(5,043)	0	3,750
Other comprehensive income, net of tax of $1,452	0	0	0	0	1,905	0	0	0	1,905
Balance at March 31, 2013	177,674	$ 1,777	$ 6,232,815	$ (1,607,321)	$ (114,286)	(132)	$ (5,043)	$ 1,720	$ 4,509,662

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

Note 1: Basis of Presentation

The accompanying Consolidated Balance Sheet of American Water Works Company, Inc. and Subsidiary Companies (the "Company") at March 31, 2014, the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 and 2013, the Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013, and the Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 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.

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 or included in the consolidated results of operations, financial position or footnotes of 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 ha s 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.

Note 3: Acquisitions

Acquisitions

During the three-month period ended March 31, 2014, the Company closed on two acquisitions: one a regulated water system and the other a regulated system providing water and wastewater services. The aggregate purchase price of these acquisitions totaled $2,279. Assets acquired totaled $2,503 and consisted of utility plant of $1,887, non-utility plant of $315 and goodwill of $301. Liabilities assumed were $224 of contributions in aid of construction.

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 three months ended March 31, 2014.

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

	Regulated Unit		Market-Based Operations		Consolidated		
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Total Net
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 March 31, 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	(89)	0	0	0	(89)	0	(89)
Balance at March 31, 2013	$ 3,411,460	$ (2,332,670)	$ 235,990	$ (107,619)	$ 3,647,450	$ (2,440,289)	$ 1,207,161

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 a transfer agent without commission fees. The Company’s transfer agent may buy newly issued shares directly from the Company or shares held in the

Company's treasury. The transfer agent may also buy shares in the public markets or in privately negotiated transactions. Purchases generally will be made and credited to DRIP accounts once each week. As of March 31, 2014, there were 4,645 shares available for future issuance under the DRIP.

The following table summarizes information regarding issuances under the DRIP for the three months ended March 31, 2014 and 2013:

	2014	2013
Shares of common stock issued	10	10
Cash proceeds received	$ 438	$ 392

Cash dividend payments made during the three–month periods ended March 31, 2014 and 2013 were as follows:

	2014	2013
Dividends per share, three months ended: March 31	$ 0.28	$ 0.00
Total dividends paid, three months ended: March 31	$ 49,968	$ 0

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

On April 29, 2014, the Company declared a quarterly cash dividend of $0.31 per share, payable on June 2, 2014 to all shareholders of record as of May 12, 2014.

Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the three months ended March 31, 2014 and 2013, respectively:

	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, 2014	$ (69,711)	$ 713	$ 31,150	$ 3,213	$ (34,635)
Other comprehensive income (loss) before reclassifications	0	0	0	(550)	(550)
Amounts reclassified from accumulated other comprehensive income	0	41	(7)	0	34
Other comprehensive income (loss) for the period	0	41	(7)	(550)	(516)
Ending balance at March 31, 2014	$ (69,711)	$ 754	$ 31,143	$ 2,663	$ (35,151)
Beginning balance at January 1, 2013	$ (143,183)	$ 539	$ 22,239	$ 4,214	$ (116,191)
Other comprehensive income (loss) before reclassifications	0	0	0	(366)	(366)
Amounts reclassified from accumulated other comprehensive income	0	43	2,228	0	2,271
Other comprehensive income (loss) for the period	0	43	2,228	(366)	1,905
Ending balance at March 31, 2013	$ (143,183)	$ 582	$ 24,467	$ 3,848	$ (114,286)

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

Stock-Based Compensation

The Company has granted stock option and restricted stock unit awards to non-employee directors, officers and other key employees of the Company pursuant to the terms of its 2007 Omnibus Equity Compensation Plan (the "Plan"). As of March 31 , 2014, a total of 8,896 shares were available for grant under the Plan. Shares issued under the Plan may be authorized-but-unissued shares of Company stock or reacquired shares of Company stock, including shares purchased by the Company on the open market for purposes of the Plan.

The Company recognizes compensation expense for stock awards over the vesting period of the award. The following table presents stock-based compensation expense recorded in operation and maintenance expense in the accompanying Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	**2013**
Stock options	$ 655	$ 752
Restricted stock units	1,919	1,157
Employee stock purchase plan	137	133
Stock-based compensation in operation and maintenance expense	2,711	2,042
Income tax benefit	(1,057)	(796)
After-tax stock-based compensation expense	$ 1,654	$ 1,246

There were no significant stock-based compensation costs capitalized during the three months ended March 31, 2014 and 2013, respectively.

Stock Options

In the first three 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 March 31 , 2014:

Dividend yield	2.54%
Expected volatility	17.70%
Risk-free interest rate	1.01%
Expected life (years)	3.5
Exercise price	$ 44.06
Grant date fair value per share	$ 4.49

Stock options granted under the Plan have maximum terms of seven years, vest over periods ranging from one to three years, and are granted with exercise prices equal to the market value of the Company’s common stock on the date of grant. As of March 31, 2014, $3,376 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.7 years.

The table below summarizes stock option activity for the three months ended March 31, 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	442	44.06		
Forfeited or expired	(10)	36.88		
Exercised	(249)	27.41		
Options outstanding at March 31, 2014	2,238	$ 31.93	4.4	$ 30,139
Exercisable at March 31, 2014	1,421	$ 26.80	3.4	$ 26,431

The following table summarizes additional information regarding stock options exercised during the three months ended March 31, 2014 and 2013:

	2014	2013
Intrinsic value	$ 4,206	$ 4,955
Exercise proceeds	6,822	6,893
Income tax benefit	1,151	1,418

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 three months of 2014, the Company granted restricted stock units, both with and without performance conditions, to certain employees under the Plan. The restricted stock units without performance conditions vest ratably over the three-year service period beginning January 1, 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 March 31, 2014:

Expected volatility	17.80%
Risk-free interest rate	0.72%
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 March 31, 2014, $10,250 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 1.4 years.

The table below summarizes restricted stock unit activity for the three months ended March 31, 2014:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2014	539	$ 36.27
Granted	176	45.06
Performance share adjustment	113	30.34
Vested	(298)	30.69
Forfeited	(4)	39.11
Non-vested total at March 31, 2014	526	$ 41.09

The following table summarizes additional information regarding restricted stock units distributed during the three months ended March 31, 2014 and 2013:

	2014	2013
Intrinsic value	$ 13,175	$ 13,559
Income tax benefit	1,450	2,049

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 $ 175 and $9 to retained earnings during the three months ended March 31, 2014 and 2013, 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 Mar ch 31, 2014, there were 1,338 shares of common stock reserved for issuance under the ESPP. During the three months ended March 31, 2014, the Company issued 25 shares under the ESPP.

Note 6: Long-Term Debt

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

	Rate	Weighted Average Rate	Maturity	March 31, 2014	December 31, 2013
Long-term debt of American Water Capital Corp. ("AWCC") (a)					
Private activity bonds and government funded debt					
Fixed rate	2.30%-6.75%	5.63%	2018-2040	$ 330,732	$ 330,732
Senior notes					
Fixed rate	3.85%-8.27%	5.69%	2016-2042	3,312,757	3,312,761
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate	0.00%-6.20%	4.69%	2014-2041	861,535	863,716
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2015-2039	676,500	676,500
Mandatory redeemable preferred stock	8.47%-9.75%	8.61%	2019-2036	17,702	18,902
Capital lease obligation	12.17%	12.17%	2026	906	913
Long-term debt				5,200,132	5,203,524
Unamortized debt, net (b)				35,012	35,984
Fair value adjustment to interest rate hedge				4,396	4,724
Total long-term debt				$ 5,239,540	$ 5,244,232

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

The Company did not issue long-term debt during the first three months of 2014.

The following long-term debt was retired through optional redemption or payment at maturity during the first three months of 2014:

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp.	Senior notes–fixed rate	6.00%	2039	$ 4
Other subsidiaries	Private activity bonds and government funded debt–fixed rate	0.00%-5.25%	2014-2041	2,181
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments			7
Total retirements and redemptions				$ 3,392

Interest income included in interest, net is summarized below:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest income	$ 3,377	$ 2,835

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	**March 31, 2014**	**December 31, 2013**
Regulatory and other long-term assets		
Other	$ 4,399	$ 4,776
Long-term debt		
Long-term debt	4,396	4,724

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 March 31,	
Income statement classification	**2014**	**2013**
Interest, net		
Loss on swap	$ (377)	$ (673)
Gain on borrowing	328	548
Hedge ineffectiveness	(49)	(125)

Note 7: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $638,227 (net of discount of $73) at March 31, 2014 and $630,307 (net of discount of $193) at December 31, 2013. During the first three months of 2014, the Company borrowed $35,000 with maturities greater than three months, and repaid $221,000 borrowed in 2013 with maturities greater than three months.

Note 8: Income Taxes

The Company's estimated annual effective tax rate for the three months ended March 31, 2014 was 40.1% compared to 39.8% for the three months ended March 31, 2013, excluding various discrete items.

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

	Three Months Ended March 31,	
	2014	**2013**
Actual effective tax rate	39.7%	35.1%

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.

Current deferred tax assets increased in 2014 due to the expected utilization of certain tax attributes within the next 12 months.

Note 9: Pension and Other Postretirement Benefits

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Components of net periodic pension benefit cost		
Service cost	$ 7,943	$ 9,468
Interest cost	19,163	17,024
Expected return on plan assets	(23,709)	(22,107)
Amortization of:		
Prior service cost (credit)	181	181
Actuarial (gain) loss	(33)	9,293
Net periodic pension benefit cost	$ 3,545	$ 13,859
Components of net periodic other postretirement benefit cost		
Service cost	$ 2,764	$ 3,820
Interest cost	7,151	7,175
Expected return on plan assets	(6,875)	(7,571)
Amortization of:		
Prior service cost (credit)	(547)	(547)
Actuarial (gain) loss	(20)	2,782
Net periodic other postretirement benefit cost	$ 2,473	$ 5,659

The Company contributed $7,680 to its defined benefit pension plans in the first three months of 2014 and expects to contribute $29,785 during the balance of 2014. In addition, the Company contributed $3,034 for the funding of its other postretirement plans in the first three months of 2014 and expects to contribute $9,103 during the balance of 2014.

Note 10: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At March 31, 2014, the Company has accrued approximately $3,300 as probable costs and it is reasonably possible that additional losses could range up to $32,100 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements recovered by plaintiffs in such claims or actions, if any, will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company's military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenue of $2,258,662 at March 31, 2014. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company's Operations and Maintenance agreements with municipalities and other customers expire between 2014 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $938,071 at March 31, 2014. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 11: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $3,300 at March 31, 2014 and December 31, 2013, respectively. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 through 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at March 31, 2014 and December 31, 2013 include $7,833 and $8,027, respectively, related to the NOAA agreement.

Note 12: Earnings per Common Share

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

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

	Three Months Ended March 31,	
Basic	**2014**	**2013**
Net income	$ 68,123	$ 57,643
Less: Distributed earnings to common shareholders	50,128	9
Less: Distributed earnings to participating securities	15	0
Undistributed earnings	17,980	57,634
Undistributed earnings allocated to common shareholders	17,975	57,614
Undistributed earnings allocated to participating securities	5	20
Total income available to common shareholders, basic	$ 68,103	$ 57,623
Weighted-average common shares outstanding, basic	178,539	177,327
Basic net income per common share	$ 0.38	$ 0.32

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

The following is a reconciliation of the Company’s net income and weighted-average common shares outstanding for calculating diluted earnings per share:

	Three Months Ended March 31,	
Diluted	**2014**	**2013**
Total income available to common shareholders, basic	$ 68,103	$ 57,623
Undistributed earnings for participating securities	5	20
Total income available to common shareholders, diluted	$ 68,108	$ 57,643
Weighted-average common shares outstanding, basic	178,539	177,327
Common stock equivalents:		
Restricted stock units	318	381
Stock options	599	755
Employee stock purchase plan	1	2
Weighted-average common shares outstanding, diluted	179,457	178,465
Diluted net income per common share	$ 0.38	$ 0.32

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

	Three Months Ended March 31,	
	2014	**2013**
Stock options	470	317
Restricted stock units where certain performance conditions were not met	90	139

Note 13: Fair Value of Assets and Liabilities

Fair Value of Financial Instruments

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

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted p rices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company’s debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company’s own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments are as follows:

Recurring Fair Value Measures	Carrying Amount	At Fair Value as of March 31, 2014 Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 17,621	$ 0	$ 0	$ 22,048	$ 22,048
Long-term debt (excluding capital lease obligations)	5,221,013	2,347,670	1,465,833	2,133,449	5,946,952

Recurring Fair Value Measures	Carrying Amount	At Fair Value as of December 31, 2013 Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 18,827	$ 0	$ 0	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of March 31, 2014 and December 31, 2013, respectively:

Recurring Fair Value Measures	At Fair Value as of March 31, 2014 Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 29,497	$ 0	$ 0	$ 29,497
Rabbi trust investments	0	682	0	682
Deposits	2,047	0	0	2,047
Mark-to-market derivative asset	0	4,399	0	4,399
Total assets	31,544	5,081	0	36,625
Liabilities:				
Deferred compensation obligation	0	11,476	0	11,476
Mark-to-market derivative liability	0	1,225	0	1,225
Total liabilities	0	12,701	0	12,701
Total net assets (liabilities)	$ 31,544	$ (7,620)	$ 0	$ 23,924

Recurring Fair Value Measures	At Fair Value as of December 31, 2013 Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 29,259	$ 0	$ 0	$ 29,259
Rabbi trust investments	0	444	0	444
Deposits	1,901	0	0	1,901
Mark-to-market derivative asset	0	4,776	0	4,776
Total assets	31,160	5,220	0	36,380
Liabilities:				
Deferred compensation obligation	0	11,928	0	11,928
Mark-to-market derivative liability	0	1,276	0	1,276
Total liabilities	0	13,204	0	13,204
Total net assets (liabilities)	$ 31,160	$ (7,984)	$ 0	$ 23,176

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to the balance sheet date are classified as current.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Note 14: Segment Information

The Company has two operating segments that are also the Company's two reportable segments, referred to as Regulated Businesses and Market-Based Operations. The following table includes the Company's summarized segment information:

	As of or for the Three Months Ended March 31, 2014			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 607,644	$ 78,798	$ (4,496)	$ 681,946
Depreciation and amortization	98,783	1,604	5,691	106,078
Total operating expenses, net	431,957	68,812	(4,919)	495,850
Income (loss) before income taxes	115,028	10,631	(12,653)	113,006
Total assets	13,497,624	284,765	1,492,432	15,274,821
Capital expenditures	191,579	887	0	192,466

	As of or for the Three Months Ended March 31, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 573,237	$ 67,336	$ (4,436)	$ 636,137
Depreciation and amortization	91,857	1,759	6,033	99,649
Total operating expenses, net	415,516	62,381	(5,993)	471,904
Income (loss) before income taxes	98,781	5,671	(15,641)	88,811
Total assets	12,747,924	260,389	1,776,904	14,785,217
Capital expenditures	212,265	821	0	213,086

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future" and "intends" and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the "Risk Factors" section or other sections in the Company's annual report on Form 10-K ("Form 10-K") for the year ended December 31, 2013 filed with the Securities and Exchange Commission ("SEC"), as well as in Item IA of Part II of this Quarterly Report. We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies ("PUCs") in the states in which they operate. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by the PUCs. We report the results of these businesses in our Market-Based Operations segment. For further description of our businesses see Item 1, "Business" section, found in our Form 10-K for the year ended December 31, 2013 filed with the SEC.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K for the year ended December 31, 2013 filed with the SEC.

Overview

Financial Results. For the three months ended March 31, 2014, we reported net income of $68.1 million, or diluted earnings per share ("EPS") of $0.38 compared to $57.6 million, or diluted EPS of $0.32 for the comparable period in 2013.

The primary factors contributing to the increase in net income for the three months ended March 31, 2014 compared to the same period in 2013 was increased revenues in our Regulated Business segment partially offset by higher operation and maintenance expense ("O&M"), also in our Regulated Businesses. For further details, see "Consolidated Results of Operations and Variances" and "Segment Results" below.

For 2014, our goals include actively addressing regulatory lag that impacts return on our investments and promoting constructive regulatory frameworks, continuing to improve our regulated O&M efficiency ratio, making efficient use of our capital and expanding both our Regulated Businesses segment through focused acquisitions and/or organic growth and our Market-Based Operations segment through core growth, expanding markets and new offerings. Also, in 2014, we anticipate savings from expense reductions attributable to lower business transformation project-related implementation costs, lower pension costs and lower interest expense resulting from our 2013 debt refinancing. In addition, we will continue to concentrate on our customers by achieving established customer satisfaction and service quality targets. Regarding environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage.

We expect to resolve three rate proceedings during 2014 and plan to file up to four general rate cases, including one which was already filed in January 2014. Additionally, we will file for infrastructure surcharges, either as part of our general rate case filings or in separate filings, and continue to pursue appropriate pass-through mechanisms for certain costs and forward-looking adjustments or mechanisms, including those that recognize declining usage.

The progress that we have made in the first three months of 2014 with respect to certain of these objectives is described below.

Addressing Regulatory Lag. On January 1, 2014, our Pennsylvania rate case settlement, which was approved on December 19, 2013 and provides for $26.0 million in additional annualized revenue, became effective. Also, on January 1, 2014, additional annualized revenues of $0.9 million, $10.1 million and $2.1 million resulting from infrastructure charges in our New York, New Jersey and Illinois subsidiaries, respectively, became effective. Additionally, an environmental cost adjustment mechanism to pass through expenses and capital costs of mandated environmental compliance measures by a utility, which was previously approved by the Missouri Public Service Commission in April 2013, was adopted by our Missouri subsidiary on January 3, 2014, and became effective February 3, 2014.

Also, in January 2014, our New York subsidiary filed two infrastructure surcharges producing additional annualized revenue of approximately $0.7 million and $0.2 million which became effective on March 3, 2014 and April 1, 2014, respectively.

On January 24, 2014, we filed our general rate case in Indiana requesting additional annualized revenues of $19.6 million. On February 28, 2014, the Iowa Utilities Board issued a final order, authorizing additional annualized revenue of $3.8 million for our Iowa subsidiary. The new rates were effective on April 18, 2014. The increase includes approximately $2.7 million of interim rates that were effective May 10, 2013.

On February 25, 2014, our Missouri subsidiary filed for additional revenues from infrastructure charges in the amount of $3.1 million. The filing is expected to be effective during the second quarter of 2014.

On April 1, 2014, the final $1.2 million of annualized revenue rate increase, previously approved by the New York State Public Service Commission in March of 2012, became effective.

In October, 2013, our Tennessee subsidiary filed a petition with the Tennessee Regulatory Authority (“TRA”) that would allow four alternative rate mechanisms including a Qualified Infrastructure Investment Program Rider, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider, and a Production Costs and Other Pass-through mechanism. On January 10, 2014, we filed with the TRA a settlement agreement that we entered into with the Consumer Advocate and Protection Division. The TRA approved both the rate mechanisms and settlement agreement with an effective date of April 15, 2014.

As of May 5, 2014, we are awaiting final orders for general rate cases in two states, requesting additional annualized revenue of approximately $52.0 million, including the Indiana case filed in January 2014. There is no assurance that all, or any portion, of these requested increases will be granted.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses. Our O&M efficiency ratio (a non-GAAP measure) is calculated on our Regulated Businesses’ operations and is defined as operation and maintenance expense divided by operating revenues where both O&M and operating revenues are adjusted to eliminate the impact of purchased water. We also exclude the allocable portion of non-O&M support services costs, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the Statement of Operations. Our O&M efficiency ratio was 41.5% for the three months ended March 31, 2014, compared to 42.9% for the three months ended March 31, 2013. The change in our 2014 O&M efficiency ratio for the three months ended March 31, 2014 was primarily attributable to the increase in our Regulated Businesses’ revenue.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses’ operations. This information is intended to enhance an investor’s overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies’ operating measures and should not be used in place of the GAAP information provided elsewhere in this report. The following table provides a reconciliation that compares O&M and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our O&M efficiency ratio for the three months ended March 31, 2014 as compared to the same period in 2013:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure):

	For the three months ended March 31,	
	2014	2013
	(In thousands)	
Total O&M	$ 329,275	$ 312,203
Less:		
O&M—Market-Based Operations	65,840	59,224
O&M—Other	(14,392)	(15,963)
Total Regulated O&M	277,827	268,942
Less:		
Regulated purchased water expense	27,082	23,984
Allocation of internal O&M	9,992	9,554
Adjusted Regulated O&M(a)	$ 240,753	$ 235,404
Total Operating Revenues	$ 681,946	$ 636,137
Less:		
Operating revenues—Market-Based Operations	78,798	67,336
Operating revenues—Other	(4,496)	(4,436)
Total Regulated operating revenues	607,644	573,237
Less: Regulated purchased water expense*	27,082	23,984
Adjusted Regulated operating revenues(b)	$ 580,562	$ 549,253
Regulated O&M efficiency ratio (a)/(b)	41.5%	42.9%

* Calculation assumes purchased water revenues are equal to purchased water expenses.

Making Efficient Use of Capital. We made capital investments of approximately $175.2 million during the three months ended March 31, 2014. Of this total investment, approximately $173.0 million was for Company-funded capital improvements with the remaining $2.2 million for the acquisition of regulated water and/or wastewater systems. For the full-year of 2014, we continue to estimate our total capital plan to be approximately $1.1 billion, with approximately $900 million to $1.0 billion allocated to upgrading our infrastructure and systems and $100 million for acquisitions and strategic investment purposes.

Expanding Markets and Developing New Offerings. During the three months ended March 31, 2014, our Regulated Businesses completed the purchase of a regulated water system and another regulated system with both water and wastewater services. These acquisitions added approximately 900 customers to our regulated operations. Also, as previously announced, in January 2014, our Military Services Group, within our Market-Based Operations was awarded a contract for ownership, operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah and our Homeowner Services Group ("HOS") expanded its water and sewer line protection programs into Maine, Minnesota and Oklahoma.

Other Matters.

West Virginia Freedom Industries Chemical Spill. As noted in the Form 10-K, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances, 4-methylcyclohexane methanol, or MCHM, and PPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant in Charleston, West Virginia. As a result of this event, income before income taxes was reduced by $5.9 million for the three months ended March 31, 2014.

As disclosed in more detail in Part II, Item 1, "Legal Proceedings" in this 10-Q to date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone, and Putman counties. (The state court cases have been removed to federal court and are subject to remand motions.) Many of these lawsuits also name Freedom Industries (which is now in bankruptcy), and a few also name the Company or other Company affiliates.

The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

Consolidated Results of Operations and Variances

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Favorable (Unfavorable) Change
Operating revenues	$ 681,946	$ 636,137	$ 45,809
Operating expenses			
Operation and maintenance	329,275	312,203	(17,072)
Depreciation and amortization	106,078	99,649	(6,429)
General taxes	60,767	60,146	(621)
(Gain) loss on asset dispositions and purchases	(270)	(94)	176
Total operating expenses, net	495,850	471,904	(23,946)
Operating income	186,096	164,233	21,863
Other income (expenses)			
Interest, net	(73,560)	(78,114)	4,554
Allowance for other funds used during construction	2,201	3,396	(1,195)
Allowance for borrowed funds used during construction	1,483	1,653	(170)
Amortization of debt expense	(1,673)	(1,581)	(92)
Other, net	(1,541)	(776)	(765)
Total other income (expenses)	(73,090)	(75,422)	2,332
Income before income taxes	113,006	88,811	24,195
Provision for income taxes	44,883	31,168	(13,715)
Net income	$ 68,123	$ 57,643	$ 10,480
Income per common share			
Basic	$ 0.38	$ 0.32	
Diluted	$ 0.38	$ 0.32	
Average common shares outstanding during the period			
Basic	178,539	177,327	
Diluted	179,457	178,465	

The following is a discussion of the consolidated results of operations for the three months ended March 31, 2014 compared to the three months ended March 31, 2013:

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Operating revenues. Consolidated operating revenues for the three months ended March 31, 2014 increased $45.8 million, or 7.2%, compared to the same period in 2013. The increase is the result of higher revenues in our Regulated Businesses segment of $34.4 million, which is mainly attributable to rate increases, incremental revenues from surcharges and amortization of balancing accounts as well as increased usage. Also, contributing to the higher revenues was an $11.5 million increase in our Market-Based Operations segment primarily due to incremental revenue from our military contracts as a result of increased construction type projects at Fort Meade and Belvoir as well as contract growth in our Homeowner Services Group ("HOS"). For further information, see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated O&M for the three months ended March 31, 2014 increased by $17.1 million, or 5.5%, compared to the same period in 2013. The variance is primarily due to higher O&M costs in our Regulated Businesses segment of $8.9 million, principally due to increased production costs and in our Market-Based segment of $6.6 million mainly as a result of incremental cost related to increased activity in our military contracts, corresponding with the increased revenue. For further discussions on the changes in our Regulated and Market-Based segments' O&M, see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $6.4 million, or 6.5%, for the three months ended March 31, 2014, compared to the same period in the prior year principally as a result of additional utility plant placed in service, including Phase II of our business transformation project that went into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $2.3 million, or 3.1%, for the three months ended March 31, 2014, compared to the same period in the prior year. The change is primarily due to a reduction in interest expense resulting from interest savings as a result of our 2013 refinancings, offset by a reduction in AFUDC which is mainly attributable to Phase II of our business transformation project being placed into service in the second and fourth quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $13.7 million, or 44.0%, to $44.9 million for the three months ended March 31, 2014. The effective tax rates for the three months ended March 31, 2014 and 2013 were 39.7% and 35.1%, respectively. The 2013 rate included a $3.3 million tax benefit associated with a legal structure reorganization in our Market-Based segment. This strategic restructuring allows us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Segment Results

We have two operating segments that are also our reportable segments: the Regulated Businesses and the Market-Based Operations. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the three months ended March 31,		
	2014	2013	Increase (Decrease)
	(In thousands)		
Operating revenues	$ 607,644	$ 573,237	$ 34,407
Operation and maintenance expense	277,827	268,942	8,885
Operating expenses, net	431,957	415,516	16,441
Income before income taxes	115,028	98,781	16,247

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is generally subject to PUC economic regulation and our results of operations are impacted significantly by rates authorized by the PUCs in the states in which we operate.

Operating revenues increased by $34.4 million, or 6.0%, for the three months ended March 31, 2014, as compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $19.8 million attributable to rate increases from rate authorizations for a number of our operating companies and higher consumption which increased revenues by approximately $5.8 million. Additionally revenues were higher by $5.3 million due to increased surcharge and amortization of balancing accounts. Lastly, revenues increased by $3.3 million as a result of 2013 acquisitions, with the most significant being the acquisition of Dale Service Corporation (“Dale”) by our Virginia subsidiary in the fourth quarter of 2013.

The following table provides information regarding the Regulated Businesses' for the periods indicated:

	For the three months ended March 31,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$ 353,524	$ 326,142	$ 27,382	8.4%	39,937	37,988	1,949	5.1%
Commercial	129,819	114,074	15,745	13.8%	18,989	16,922	2,067	12.2%
Industrial	33,569	28,201	5,368	19.0%	9,815	8,883	932	10.5%
Public and other	83,966	73,953	10,013	13.5%	13,409	11,627	1,782	15.3%
Other water revenues	777	5,134	(4,357)	(84.9%)	—	—	—	—
Billed water services	601,655	547,504	54,151	9.9%	82,150	75,420	6,730	8.9%
Unbilled water services	(26,207)	(5,460)	(20,747)	380.0%				
Total water service revenues	575,448	542,044	33,404	6.2%				
Wastewater service revenues	22,408	19,884	2,524	12.7%				
Other revenues	9,788	11,309	(1,521)	(13.4%)				
	$ 607,644	$ 573,237	$ 34,407	6.0%				

Water Services – Water service operating revenues for the three months ended March 31, 2014 totaled $575.4 million, a $33.4 million increase, or 6.2%, over the same period of 2013. As described above, this increase is primarily due to rate increases, higher consumption and incremental revenues associated with surcharges and amortization of balancing accounts. Also, it should be noted that the mix between billed revenues and unbilled revenues for the three months ended March 31, 2014, as compared to the same period in 2013, has changed. This change is principally the result of the implementation of our Customer Information System "CIS" as part of Phase II of our business transformation project. At December 31, 2013, unbilled revenues were significantly higher than historical levels due to billing delays in certain accounts. During the first quarter of 2014, we have addressed a majority of these delayed billings. Therefore, as a result, the change in unbilled water revenue for the first quarter of 2014 compared to the same period in 2013 has decreased by $20.7 million with a corresponding increase in billed revenues.

Wastewater services – Our subsidiaries provide wastewater services in ten states. Revenues from these services increased $2.5 million, or 12.7%, for the three months ended March 31, 2014, compared to the same period in 2013. The increase is primarily attributable to the Dale acquisition in the fourth quarter of 2013.

Operation and maintenance expense. Operation and maintenance expense increased $8.9 million, or 3.3%, for the three months ended March 31, 2014, compared to the same period in 2013.

The following table provides information regarding operation and maintenance expense for the three months ended March 31 , 2014 and 2013, by major expense category:

	For the three months ended March 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 69,259	$ 60,450	$ 8,809	14.6%
Employee-related costs	107,181	113,201	(6,020)	(5.3%)
Operating supplies and services	56,265	54,360	1,905	3.5%
Maintenance materials and supplies	20,447	18,279	2,168	11.9%
Customer billing and accounting	13,205	10,172	3,033	29.8%
Other	11,470	12,480	(1,010)	(8.1%)
Total	$ 277,827	$ 268,942	$ 8,885	3.3%

Production costs by major expense type were as follows:

	For the three months ended March 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased Water	$ 27,082	$ 23,984	$ 3,098	12.9%
Fuel and Power	23,918	19,978	3,940	19.7%
Chemicals	10,668	10,604	64	0.6%
Waste Disposal	7,591	5,884	1,707	29.0%
Total	$ 69,259	$ 60,450	$ 8,809	14.6%

Production costs increased overall by $8.8 million, or 14.6%, for the three months ended March 31, 2014, compared to the same period in the prior year. The higher costs are mainly due to incremental purchased water costs, principally due to price increases in our California subsidiary and higher fuel and power costs due to increased customer demand and higher supplier prices in several of our operating facilities.

Employee-related costs, including salaries and wages, group insurance and pension expense, decreased $6.0 million, or 5.3%, for the three months ended March 31, 2014, compared to the same period in the prior year. These employee-related costs represent approximately 39% and 42% of operation and maintenance expense for the three months ended March 31, 2014 and 2013, respectively.

The following table provides information with respect to components of employee-related costs for the three months ended March 31, 2014 and 2013:

	For the three months ended March 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$ 81,083	$ 78,845	$ 2,238	2.8%
Pensions	6,820	12,371	(5,551)	(44.9%)
Group insurance	14,365	16,844	(2,479)	(14.7%)
Other benefits	4,913	5,141	(228)	(4.4%)
Total	$ 107,181	$ 113,201	$ (6,020)	(5.3%)

The overall decrease in employee-related costs for the three months ended March 31, 2014, compared to the same period in 2013, was primarily due to a reduction in pension and group insurance expenses, with the primary driver of group insurance being postretirement benefit costs. These decreases are principally due to the change in the discount rate, which in turn results in decreased contributions, in particular in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Partially offsetting these decreases was an increase in salaries and wages expense for the three months ended March 31, 2014, compared to the same period in 2013. This increase is the result of annual wage increases and increased overtime expense attributable to increased number of main breaks as a result of the harsh winter weather conditions, offset by a reduction in incentive compensation expense due to a lower than expected 2013 incentive compensation payout as well as higher capitalization rates as a result of increased capital projects.

Operating supplies and services include the day-to-day expenses of office operation, legal and other professional services, transportation expenses, information systems rental charges and other office equipment rental charges. These costs increased $1.9 million, or 3.5%, for the three months ended March 31, 2014. The overall increase was primarily due to increased legal costs for our West Virginia subsidiary associated with the Freedom Industries Chemical Spill which occurred in January 2014. Partially offsetting the increase in costs was lower contracted service in the first quarter of 2014 compared to 2013. This decrease was the result of the inclusion in 2013 of additional costs, mainly as a result of backfilling positions; the use of contractors for certain projects; and incremental costs attributable to the continued maturity of our Enterprise Resource Planning systems in conjunction with the implementation of our business transformation project.

Maintenance materials and supplies, which include emergency repairs as well as costs for preventive maintenance, increased $2.2 million, or 11.9%, for the three months ended March 31, 2014, compared to the same period in 2013 mainly due to an increase in paving and backfilling and other repair costs resulting from the higher number of main breaks due to abnormally harsh winter weather conditions throughout our operating areas.

Customer billing and accounting expenses, which include uncollectible accounts expense, postage and other customer related expenses, increased $3.0 million, or 29.8%, for the three months ended March 31, 2014, respectively, compared to the same period in the prior year. This increase is primarily due to incremental uncollectible expense associated with an increase in customer accounts receivable attributable to theoverall aging of receivables as well as rate increases. We believe the aging of our receivables is the result of temporary changes made in our collection process with the implementation of our new Customer Information System in 2013.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. The decrease in these costs for the three months ended March 31, 2014, was primarily driven by lower regulatory expenses in one of our operating subsidiaries compared to the same period in the prior year.

Operating expenses. The increase in operating expenses, for the three months ended March 31, 2014, is principally due to the increase in operation and maintenance expense explained above and higher depreciation and amortization expense of $6.9 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including Phase II of our business transformation project.

Market-Based Operations

The following table provides financial information for our Market-Based Operations segment for the periods indicated:

	For the three months ended March 31,		
	2014	2013	Increase (Decrease)
	(In thousands)		
Operating revenues	$ 78,798	$ 67,336	$ 11,462
Operation and maintenance expense	65,840	59,224	6,616
Operating expenses, net	68,812	62,381	6,431
Income before income taxes	10,631	5,671	4,960

Operating revenues. Revenues for the three months ended March 31, 2014 increased $11.5 million, compared to the same period in 2013, due to incremental revenues in our Contract Operations Group of $7.6 million and HOS of $5.3 million due to contract growth mainly with our New York City contracts. The increase in the Contract Operations Group is primarily related to additional revenues from capital project activities associated with our military contracts partially offset by a reduction in revenues attributable to terminated municipal and industrial operations and maintenance contracts in 2013.

Operation and maintenance. Operation and maintenance expense increased $6.6 million, or 11.2%, for the three months ended March 31, 2014.

The following table provides information regarding categories of operation and maintenance expense for the three months ended March 31 , 2014 and 2013:

	For the three months ended March 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 9,974	$ 10,059	$ (85)	(0.8%)
Employee-related costs	14,566	16,331	(1,765)	(10.8%)
Operating supplies and services	27,779	21,470	6,309	29.4%
Maintenance materials and supplies	11,503	10,586	917	8.7%
Other	2,018	778	1,240	159.4%
Total	$ 65,840	$ 59,224	$ 6,616	11.2%

As noted in the table above, the primary factor contributing to the overall increase was an in crease in operating supplies and services. This increase is attributable to the increase in construction project activities for our military contracts and corresponds with the incremental revenues.

Operating expense. The changes in operating expenses for the three months ended March 31, 2014, compared to the same period in 2013, are primarily due to the variances in the operation and maintenance expense explained above.

Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," contained in part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

We rely on our revolving credit facility, the capital markets and our cash flows from operations to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and to the extent necessary, our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and from time to time, for direct borrowings. As of March 31, 2014, AWCC had no outstanding borrowings and $41.0 million of outstanding letters of credit under the revolving credit facility. As of March 31, 2014, AWCC had $1.2 billion available under the credit facility that we can use to fulfill our short-term liquidity needs, to issue letters of credit and support our $638.2 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from operating activities for the three months ended March 31, 2014 were $244.9 million compared to $149.6 million for the three months ended March 31, 2013.

The following table provides a summary of the major items affecting our cash flows from operating activities for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands)	
Net income	$ 68,123	$ 57,643
Add (subtract):		
Non-cash activities (1)	174,110	141,670
Changes in working capital (2)	13,355	(19,922)
Pension and postretirement healthcare contributions	(10,714)	(29,766)
Net cash flows provided by operations	$ 244,874	$ 149,625

(1) Includes, depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled utility revenue, taxes receivable including income taxes, other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address this timing issue through the aforementioned liquidity funding mechanisms. Our cash collections for our Regulated Businesses' accounts receivable, some of which were unbilled as December 31, 2013, showed improvement during the first quarter of 2014 compared to the second half of 2013. In the second half of 2013, the rate of cash collections in particular in those states in which we implemented CIS in the second quarter of 2013, were slower than historical payment patterns. We believe this degradation in cash collections to be as a result of certain implementation decisions, made as part of the CIS implementation, including such items as the manual validation of bills prior to being mailed to customers and decreased collection efforts. Therefore, we believe this situation to be only temporary in nature. Although cash collections increased during the first quarter of 2014, there are no assurances that this rate of cash collections will continue or be consistent with previous historical collection patterns.

The increase in cash flows from operating activities was primarily due to higher net income adjusted for non-cash activities, the changes in working capital and a reduction in pension and postretirement benefit contributions. The increase in working capital for the three months ended March 31, 2014 compared to the same period in the prior year is principally the result of increased processing of payments, accounts payable and accrued expenses, in the first quarter of 2013, which was attributed to delays in payment of vendor invoices in the latter portion of 2012 as a result of the implementation of Phase I of our business transformation project.

Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities for the periods indicated:

	Three Months Ended March 31,	
	2014	**2013**
	(In thousands)	
Net capital expenditures	$ (192,466)	$ (213,086)
Proceeds from sale of assets	243	280
Acquisitions	(2,279)	(2,836)
Other investing activities, net (1)	(10,698)	(12,068)
Net cash flows used in investing activities	$ (205,200)	$ (227,710)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash flows used in investing activities for the three months ended March 31, 2014 was $205.2 million compared to $227.7 million for the three months ended March 31, 2013. The decrease in net capital expenditures is primarily due to the inclusion in 2013 of capital spending for our business transformation project.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be financed with customer advances and contributions for construction (net of refunds).

As previously noted AWCC is a wholly-owned finance subsidiary of American Water Works Company, Inc. (the “parent company”). Based on the needs of our regulated subsidiaries and the parent company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the parent company. The regulated subsidiaries and the parent company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the parent company borrowings are not a source of capital for the Company’s regulated subsidiaries, the Company is not able to recover the interest charges on parent company debt through regulated water and wastewater rates.

Our intent is to utilize commercial paper for short-term liquidity as commercial paper borrowings have historically been more flexible and a lower cost option. However, if necessary we utilize our credit facility to complement our borrowings in the commercial paper market. Certain disruptions in the money market sector of the debt capital markets may make borrowings under our revolving credit facility more efficient and/or a lower cost alternative to commercial paper.

No long-term debt was issued during the first three months of 2014.

The following long-term debt was retired through optional redemption, sinking fund provisions or payment at maturity during the first three months of 2014:

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp.	Senior notes - fixed rate	6.00%	2039	$ 4
Other subsidiaries	Private activity bonds and government funded debt -fixed rate	0.00%-5.25%	2014-2041	2,181
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments			7
Total retirements and redemptions				$ 3,392

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other viable transactions.

Credit Facilities and Short-Term Debt

Short-term debt balance, consisting of commercial paper, net of discount, amounted to $638.2 million at March 31, 2014.

The following table provides information as of March 31, 2014 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sub-limit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
	(In thousands)					
March 31, 2014	$ 1,250,000	$ 1,208,954	$ 150,000	$ 108,954	$ 638,227	$ -

The weighted-average interest rate on short-term borrowings for the three months ended March 31, 2014 and 2013 was approximately 0.32% and 0.41%, respectively.

Capital Structure

The following table provides information regarding our capital structure for the periods presented:

	At March 31, 2014	At December 31, 2013
Total common stockholders' equity	45%	45%
Long-term debt and redeemable preferred stock at redemption value	49%	49%
Short-term debt and current portion of long-term debt	6%	6%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we, or our subsidiaries, may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. We were in compliance with our covenants as of March 31, 2014. As of April 30, 2014, two of our smaller operating companies are in technical non-compliance with certain of their reporting requirements. However, there is no impact on their financial health or their ability to access capital. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. As of March 31, 2014, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

The following table shows the Company's securities ratings as of March 31, 2014:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

Dividends

Our board of directors' practice has been to distribute to our shareholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Since the dividends on our common stock are not cumulative, only declared dividends will be paid.

On March 3, 2014, we made a cash dividend payment of $0.28 per share to all shareholders of record as of February 3, 2014. In order to take advantage of existing 2012 tax rates, the cash dividend payment that would have historically been paid in March 2013 was paid in December 2012.

On April 29, 2014 our board of directors declared a quarterly cash dividend payment of $0.31 per share payable on June 2, 2014 to all shareholders of record as of May 12, 2014.

Market Risk

There have been no significant changes to our market risk since December 31, 2013 . For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates," in our Form 10-K for the year ended December 31, 2013 filed with the SEC for a discussion of our critical accounting policies.

Recent Accounting Pronouncements

See Part I, Item 1 – Financial Statements (Unaudited) – Note 2 – New Accounting Pronouncements in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see "Market Risk" in Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 ("the Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of March 31, 2014 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014 , our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Form 10-K") in Part I, Item 1, "Legal Proceedings."

Alternative Water Supply in Lieu of Carmel River Diversions

The Form 10-K describes the Complaint for Declaratory Relief filed by California-American Water Company ("CAWC") against the Marina Coast Water District ("MCWD") and the Monterey County Water Resources Agency ("MCWRA"), which, following a transfer of the case, is before the San Francisco County Superior Court. The Complaint seeks a determination by the Court as to whether the certain agreements related to the now-abandoned Regional Desalination Project are void as a result of the alleged conflict of interest of a former director of MCWRA (described in the Form 10-K), or remained valid. Subsequent to the filing of the Form 10-K, the former director entered a plea of no contest to, among other things, a felony violation of California Government Code section 1090 (“Section 1090”), which precludes public officials from being financially interested in any contract made by them in their official capacity.

MCWD filed a Cross-Complaint against CAWC and MCWRA, and a Motion for Summary Judgment and Summary Adjudication seeking a determination that the agreements are valid. In its pleadings, MCWD asserts that CAWC’s action was barred by a 60-day statute of limitations applicable to certain contracts entered into by the MCWD and to certain contracts entered into by the MCWRA. MCWD also argued that the Court does not have jurisdiction to determine the validity of the agreements on the basis that the agreements were approved by final decisions of the California Public Utilities Commission (the “CPUC”), and under the California Public Utilities Code, superior courts are prohibited from exercising jurisdiction to decide matters that would interfere with the CPUC's policies or performance of its duties.

On February 25, 2014, the Court ruled that CAWC's action was barred by the 60-day statutes of limitations. However, the Court also ruled that MCWRA had a four-year statute of limitations under California Government Code section 1092(b), which invalidates contracts made in violation of Section 1090. Therefore, the Court held that MCWRA's time for challenging the validity of the agreements had not expired. The Court also denied MCWD's motion for a summary adjudication that the agreements were valid or that the Court did not have jurisdiction to determine the validity of the agreements. MCWRA subsequently filed a motion with the Court seeking leave to file a cross-complaint for declaratory relief on the basis that the actions of the former director renders the agreements void. On April 15, 2014, the Court granted MCWRA’s motion, and on April 16, 2014, MCWRA filed a cross-complaint against MCWD, contending that the agreements were void as a result of the former director's conduct and financial interest in the agreements. MCWRA seeks a declaration of the parties' rights and duties under the agreements and a declaration that the agreements are void.

The Form 10-K also describes the filing by California-American Water Company ("CAWC") of a formal claim with Marina Coast Water District ("MCWD") seeking monetary damages from MCWD, and the Board of MCWD's notice that it rejected CAWC's claim. As noted in the Form 10-K, CAWC and MCWD entered into a tolling agreement and extensions of the agreement with respect to CAWC's claims, which toll applicable statutes of limitations and the deadline for a commencement of litigation regarding CAWC's claims until March 1, 2014. A subsequent agreement between CAWC and MCWD extended the tolling and deadline for the commencement of litigation to August 1, 2014.

Water Treatment Residuals Disposal Matters

The Form 10-K describes CAWC's advice to the Monterey County Health Department ("MCHD") that, based on an analysis requested by MCHD, it appears that some of the residual wastes from CAWC’s Ambler Park, Toro and Ryan Ranch water treatment plants may have exceeded California hazardous waste soluble threshold limit concentration requirements and should therefore have not been disposed of at the non-hazardous waste disposal facilities to which they were transported. The Form 10-K also referenced communications between the Company and the Monterey County District Attorney's Office, which advised CAWC that it received a report from MCHD that CAWC had transported and disposed such hazardous wastes in violation of applicable provisions of the California Health and Safety Code and the California Business and Professions Code. In April 2014, following further discussions, CAWC and the District Attorney entered into a Stipulation for Entry of Judgment designed to settle the matter, and the Superior Court of Monterey County, following its approval of the settlement on April 11, 2014, issued a Stipulated Judgment. Under the Stipulated Judgment, which did not constitute an admission by CAWC regarding any issue of fact alleged in the District Attorney's simultaneously-filed complaint, the Court permanently enjoined CAWC from engaging in violations of the California Health and Safety Code and related regulatory provisions and ordered CAWC to pay $389,855 (including $325,000 in civil penalties, $4,855 in costs, and $60,000 for a supplemental environmental project).

West Virginia Elk River Chemical Spill

The Form 10-K describes events related to the leakage of two substances (the substances are 4-methylcyclohexane methanol (“MCHM”), and PPH/DiPPH, a mix of polyglycol ethers) from a chemical storage tank owned by Freedom Industries, Inc. into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia, and litigation that has ensued in connection with the matter. To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone, and Putman counties. The state court cases were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases to the state courts.

The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

Moreover, by a letter dated February 18, 2014, and as summarized in the Form 10-K in Item 1A, “Risk Factors,” a purported stockholder made a demand that the Company's board of directors take action to remedy alleged breaches of fiduciary duties by all of the members of the board and the Company’s President and Chief Operating Officer, Regulated Operations in connection with this matter. The stockholder asserts his belief that the directors and officers breached their duties of loyalty and care and good faith when they knowingly and/or recklessly failed to monitor, protect and maintain the Company's valuable business operations and its reputation and goodwill in the marketplace. The board of directors has appointed a demand review committee that, with the assistance of independent counsel, will, among other things, investigate, evaluate and make recommendations to the board of directors based on its investigation. Once it has received the committee’s recommendations, the board of directors will determine the appropriate response to the demand letter.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2013, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
*10.1	2014 Annual Incentive Plan Highlights Brochure
*10.2	Employment Letter Agreement between Linda G. Sullivan and American Water Works Company, Inc. dated March 10, 2014
*10.3	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for ML2 – L5
*10.3A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for ML2 – L5
*10.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5
*10.4A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5
*10.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5
*10.5A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5
*10.6	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5
*10.6A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5
*10.7	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for Jeffry E. Sterba
*10.8	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for Jeffry E. Sterba
*10.9	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for Jeffry E. Sterba
*10.10	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for Jeffry E. Sterba
*31.1	Certification of Jeffry Sterba, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Jeffry Sterba, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from American Water Works Company, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed with the Securities and Exchange Commission on May 7, 2014 , formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 7th day of May, 2014.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

/S/ Jeffry Sterba
Jeffry Sterba
President and Chief Executive Officer
Principal Executive Officer

/S/ Susan N. Story
Susan N. Story
Senior Vice President and Chief Financial Officer
Principal Financial Officer

/S/ Mark Chesla
Mark Chesla
Vice President and Controller
Principal Accounting Officer

EXHIBIT INDEX

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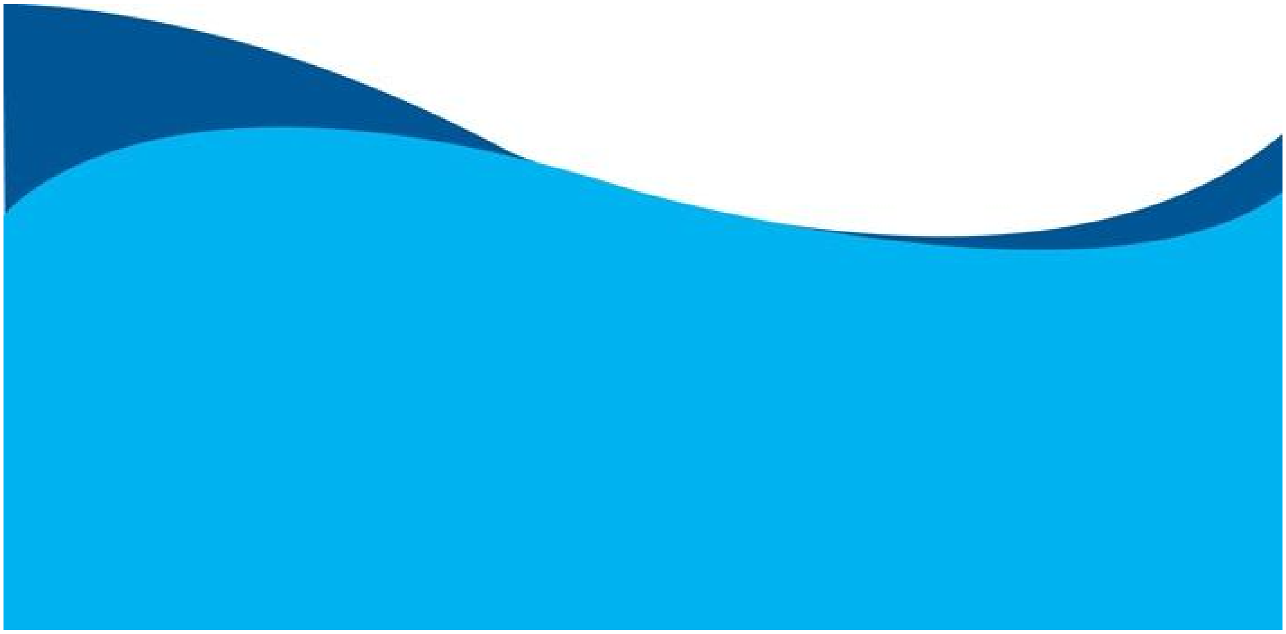
*10.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5
*10.4A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for ML2 – L5
*10.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5
*10.5A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for ML2 – L5
*10.6	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5
*10.6A	Amendment to the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for ML2 – L5
*10.7	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Restricted Stock Unit Grant Form for Jeffry E. Sterba
*10.8	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Nonqualified Stock Option Grant Form for Jeffry E. Sterba
*10.9	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form A for Jeffry E. Sterba
*10.10	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan 2014 Performance Stock Unit Grant Form B for Jeffry E. Sterba
*31.1	Certification of Jeffry Sterba, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Jeffry Sterba, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from American Water Works Company, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, filed with the Securities and Exchange Commission on May 7, 2014 , formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith.

Exhibit 10.1

AMERICAN WATER

2014
Annual
Incentive
Plan



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THE 2014 ANNUAL INCENTIVE PLAN

Your Performance —Your Award

At American Water, your performance counts. We rely on our employees' knowledge and skills to help the company achieve its business objectives.

- The American Water 2014 Annual Incentive Plan (AIP) is designed to give eligible exempt employees an annual opportunity to earn a cash award that recognizes and rewards their contributions to the company's success. This means that company and individual performance are both taken into account to determine cash awards under the plan. We continue to make adjustments to the AIP design to reinforce the link between company and individual performance and award payouts.
- The AIP program for 2014 is similar to last year, and directly ties the amount of available cash for AIP payouts to company performance against specific metrics. For 2014, the performance metrics have been adjusted, replacing measures around Business Transformation. We have increased targets for safety, service quality and customer satisfaction. Doing so continues to drive value for our customers and focuses our efforts to ensure that the work we do is always safe.
- Your individual performance continues to play a large role in determining the amount of your payout. Employees who exceed their performance targets could receive higher payouts. Conversely, employees who underperform and do not meet their performance targets could receive lower payouts or no payout at all. In short, your performance directly impacts the amount of your award. The 2014 AIP is designed to challenge and motivate you to perform at your highest level, and promote the creation of value to the customer and shareholder. Read this brochure to learn about how the 2014 plan works and what it means for you.

ELEMENTS OF THE PROGRAM

- AIP award pool funding is based on overall corporate performance against specific financial and non-financial performance (represented by the Corporate Multiplier), then allocated across organizational groups/functional areas. Allocation is subject to senior management's discretion and recognizes organizational group/functional area results.
    - AIP funding for all eligible exempt employees depends on the company achieving its financial and nonfinancial performance.
    - A pre-determined financial threshold for company performance must be met in order for funding and any award to be provided under the AIP.
- Individual award payouts will be based on individual performance against specific goals represented by the Individual Performance Factor and paid from available organizational group/functional area funding.
- For 2014, the Individual Performance Factor range is 0%–200%. Individual payouts will be capped at 200% of AIP target award.
- Award opportunity (Target Award) is expressed as a percentage of base salary. (See Attachment B.)
    - Actual payout may be lower or higher than target depending on company and individual performance against specific goals.
- Individual performance is assessed by your manager and measured against your predetermined performance goals.
- Your AIP will be distributed as a cash award in March.
    - You must be actively employed with American Water on the date awards are paid to receive your 2014 AIP payout. You (or your beneficiary) may be eligible for a prorata award if you are disabled, retire, die, involuntarily terminate (not "for cause") or a divestiture occurred on or after July 1, 2014. In the event of an involuntary termination for cause, you would not be eligible to receive an award.

Eligibility

- You are eligible for an AIP award opportunity if you are a regular, full-time exempt employee of American Water.
  - Regular, full-time exempt employees who join American Water on or before September 30, 2014 are also eligible to participate in the AIP on a prorated basis.
  - Employees transferred from nonexempt to exempt status on or after September 30, 2014 are not eligible in the current plan year.
- If you are promoted or transferred during the plan year to a position with a higher AIP target level, or if you are reclassified/transferred to a position with a lower AIP target level, your award payout will be based on your new salary and target level as of December 12, 2014, except ML4s and above who will be prorated at each salary and target level. All AIP target awards will be paid based on salaries as of December 12, 2014.
- You must be an active employee with American Water on the date the payout is made in order to receive the award. You (or your beneficiary) may be eligible for a prorata award if you are disabled, retire, die, involuntarily terminate (not “for cause”) or a divestiture occurred on or after July 1, 2014. (Retirement under this plan is age 55 and 10 total years of employment service.)
- You are not eligible for an AIP award if:
  - you transfer from exempt status to nonexempt status during the current plan year or your job was reclassified to nonexempt status,
  - your performance rating is “Unacceptable” or “Too Soon to Rate,”
  - you have not complied with the company’s annual Code of Ethics certification by the established deadline, or
  - your employment was involuntarily terminated for cause.

Why Is the Plan Based on Individual Performance?

Since the value (as reflected in our share price and our return to shareholders) and success of our business depend on the achievement of annual company and individual performance goals, American Water recognizes the need to differentiate and reward the performance of employees who enable us to reach these goals. The 2014 AIP is designed to ensure that award payouts are directly tied to measurable contributions — both company and individual — to American Water’s success.

DETERMINING AIP AWARDS

AIP award payouts depend on individual performance; they also depend on overall corporate performance and organizational group/functional area results (which determine award pool funding).

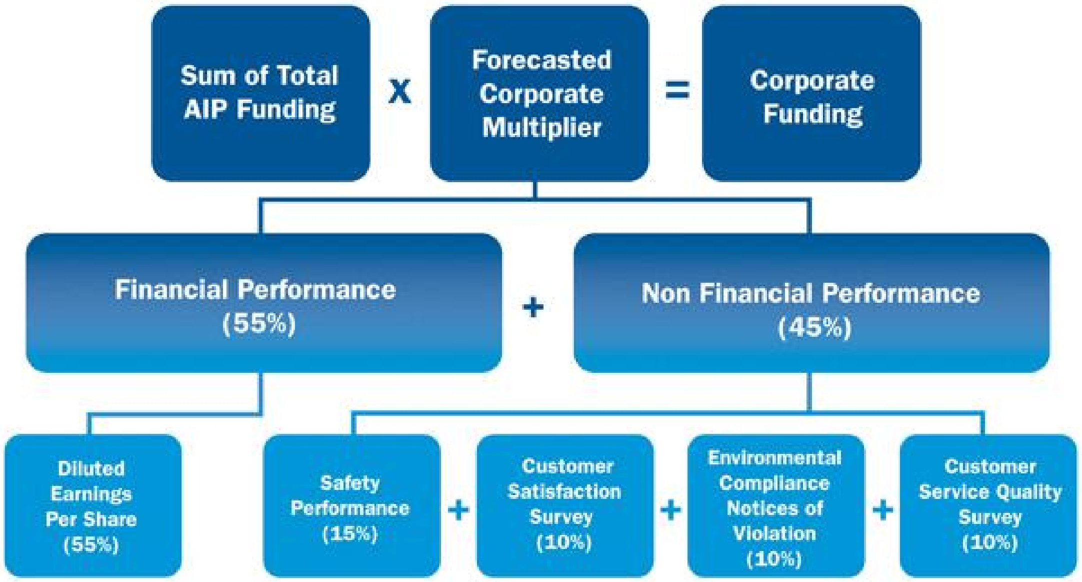
AIP awards will be determined according to the following three-step process:

- **Step 1:** Establish initial award pool based on overall corporate performance.
- **Step 2:** Allocate overall corporate funding to organizational groups/functional areas, and adjust specific organizational group/functional area funding to reflect results.
- **Step 3:** Determine AIP award based on individual performance; awards are paid from available organizational group/ functional area funding.

Step 1: Establish initial award pool based on overall corporate performance

Each year, American Water establishes funding for the AIP award pool. In 2014, the funding will be directly tied to company performance and represented by the Corporate Multiplier. The Corporate Multiplier can range from 0% to 150% depending on how well the company performed against the financial and operational goals described on the following page. Note that there is a predetermined threshold for company performance.

OVERALL CORPORATE PERFORMANCE



Step 1 (continued)

- **2014 Diluted Earnings Per Share (EPS) must be at least 94% of target** for any financial funding and award to be provided under the AIP.
- **2014 Diluted Earnings Per Share (EPS) must be at least 90% of target** for funding of any award to be provided under the AIP Non Financial Performance Factors.
- **Financial Metric (Weighted 55%)***
  - **Diluted Earnings Per Share** is a widely tracked measure of financial performance/profitability, and is calculated as follows:

Net Income to Common Stockholders ÷ **Average Outstanding Shares** (including dilutive securities such as stock options) = **Diluted Earnings per Share**

* 2014 Diluted Earnings Per Share (EPS) must be at least 94% of target for any financial funding and award to be provided under the AIP.

- **Non Financial Metric (Weighted 45%)****
  - Environmental Compliance Notices of Violation (NOVs) (10%)
  - Safety Performance (15%)
  - Customer Satisfaction Survey (10%)
  - Customer Service Quality Survey (10%)

** These outcomes are based on a combination of surveys, end-of-year results, data and other annual reports (For more details on these performance measures, see Attachment A at the back of this brochure).

Please note that AIP funding for all employees will depend on how well the company achieves its financial and non financial goals. A predetermined financial threshold for company performance must be met in order for funding and any award to be provided under the AIP. For 2014, the threshold is 90% of EPS target in order to fund any award to be provided under the AIP for non financial performance factors.

The financial and non financial metrics are added together to determine the Corporate Multiplier. So, even if certain metrics are not achieved, the funding may be reduced, but not eliminated altogether. However, if the company's financial performance does not meet the threshold, the Corporate Multiplier will be reduced to zero, which would eliminate any award payout. The Corporate Multiplier (and thus funding for payouts) may be adjusted to take into account nonrecurring items such as impairment charges, dissolutions or acquisitions of businesses or costs associated with one-time events.

Step 2: Allocate overall corporate funding, and adjust specific area funding to reflect results

Once the overall corporate funding is determined as described under Step 1, senior management will allocate the corporate funding to American Water's organizational groups and functional areas. The funding for each organizational group/ functional area may be increased or decreased, at senior management's discretion, to reflect specific organizational group/ functional area results.

Step 3: Determine individual AIP award

Your AIP target award (i.e., your award opportunity) is based on your job with the company and is expressed as a percentage of your base salary. Your actual award payout may be higher or lower than target depending on whether individual and company performance goals have been met, and your organizational group's/functional area's results. Contact your manager for information on your individual AIP target award.

The Individual Performance Factor represents how well you achieve your annual individual performance goals. Your Individual Performance Factor (IPF) can range from 0% to 200%, depending on your performance for the plan year and the amount of organizational group/functional area funding available. This performance factor will then be multiplied by your Target Award to determine your 2014 AIP award payout. Individual payouts will be capped at 200% of AIP target award. Individual AIP awards are then paid from the available organizational group/functional area award funding, which may impact the original IPF determination. The sum of all individual awards within a given organizational group/functional area must not exceed its allocated pool of dollars.

INDIVIDUAL PERFORMANCE FACTOR (IPF)

Your individual performance factor is based on (a) your performance against specific targets, and (b) the amount of organizational group/functional area funding available

* The sum of individual awards for a specific organizational group/functional area must not exceed the funding allocated to that organizational group/functional area.

WHAT THE 2014 AIP MEANS FOR YOU

Performance Ratings

Most people are motivated to do their best; therefore the better you perform, the greater your potential award will be under the plan. It is your responsibility to maximize your award opportunity by achieving or exceeding your goals.

Each year, you and your manager identify four to six high priority and challenging performance targets, which represent where you can directly impact the company's success. These performance targets and their weightings should be specific, measurable and aligned with the company's performance targets. During your year end performance review, you and your manager will discuss how well you performed against the established targets, and rate your performance using one of the following performance ratings:

2014 PERFORMANCE RATING SCALE

RATING	DESCRIPTION
EXCEPTIONAL	Contributions are widely recognized as extraordinary. Results far exceed all defined expectations, producing important and substantial impact on the Company, Division, Operating Company, Line of Business or Function.
HIGHLY EFFECTIVE	Contributions are widely recognized as distinguished. Results exceed all or most expectations, producing a tangible and material impact on the Company, Division, Operating Company, Line of Business or Function.
COMMENDABLE	Contributions are widely recognized as meaningful. Results meet, and in some cases exceed expectations, producing a positive and desirable impact on the Company, Division, Operating Company, Line of Business or Function.
NEEDS IMPROVEMENT	Contributions are widely recognized as limited. Results generally meet but in some cases fall slightly short of expectations, producing inconsistent and marginal impact on the Company, Division, Operating Company, Line of Business or Function.
UNACCEPTABLE	Contributions are widely recognized as unsatisfactory. Results fall considerably short of expectations, producing negligible or no impact on the Company, Division, Operating Company, Line of Business or Function.
TOO SOON TO RATE	Contributions cannot be measured at this time because more time is needed to see a result.

Later, during the AIP process, your manager will use your rating to determine your Individual Performance Factor. Depending on how you performed during the year, you could potentially earn a higher payout — or you could earn a lower payout or no payout at all. In other words, **the AIP design gives you more power to impact the size of your award. It also means that you are accountable for meeting your performance goals.**

Award Funding Determination

Below are four scenarios that demonstrate how AIP funding may be calculated:

AIP FUNDING EXAMPLE

TOTAL AIP FUNDING*	**$20,000,000**
TOTAL AIP FUNDING FOR ORGANIZATIONAL GROUP*	**$ 2,000,000**

* The total is the sum of the target awards for the eligible employees.

	SCENARIO 1	**SCENARIO 2**	**SCENARIO 3**	**SCENARIO 4**
Financial Performance Factor	1.39	0.94	0.25	0.00
Non Financial Performance Factor	0.90	1.00	0.50	0.00
STEP 1: Establish corporate funding based on overall corporate performance				
Total of AIP Targets (A)	$20,000,000	$20,000,000	$20,000,000	$20,000,000
Financial Performance Factor (i) (55% weight)	1.39 × 0.55 = 0.76	0.94 × 0.55 = 0.52	0.25 × 0.55 = 0.14	0.00 × 0.55 = 0.00
Non Financial Performance Factor (ii) (45% weight)	0.90 × 0.45 = 0.41	1.00 × 0.45 = 0.45	0.50 × 0.45 = 0.23	0.00 × 0.45 = 0.00
i + ii = Corporate Multiplier (B)	1.17	0.97	0.37	0.00
A × B = Corporate Funding	$20,000,000 × 1.17 = **$23,400,000**	$20,000,000 × 0.97 = **$19,400,000**	$20,000,000 × 0.37 = **$7,400,000**	$20,000,000 × 0.00 = **$0**
STEP 2: Allocate overall corporate funding to organizational groups/functional areas; adjust specific organizational group/functional area funding to reflect results				
Organizational Group Pool (C) (Allocated from corporate funding)	$2,340,000	$1,940,000	$740,000	$0
Organizational Group Adjustment (D)	1.00 (Target)	.80 (Below Target)	1.20 (Above Target)	1.00 (Target)
C × D = Organizational Group Pool (adjusted based on results)	$2,340,000 × 1.00 = **$2,340,000**	$1,940,000 × 0.80 = **$1,552,000**	$740,000 × 1.20 = **$888,000**	$0 × 1.00 = **$0**

Both company and individual performance can significantly impact your final payout. Also, remember that the sum of individual awards for a specific organizational group/functional area must equal the funding allocated to that organizational group/functional area.

Please discuss the AIP with your manager to ensure you clearly understand how the formula works and how your performance impacts your potential award payout.

Receiving Your AIP Award

Awards will be paid in cash no later than March 14, 2015. If you are eligible for an award payout, please keep in mind that:

- You must be actively employed with the company on the date of payout.
- The payout will be based on your annual base salary as of December 12, 2014 and subject to all federal, state and local income tax withholdings.
- The American Water Board of Directors or its Designee has the right to adjust the award determination(s) and/or award payouts(s) at its discretion.

Remember, it's your performance — and your award: The contributions you make to American Water's success throughout the year ultimately impact the amount of your payout. Be sure to carefully review this brochure; then speak with your manager about the AIP and about what you can do to improve your performance and share the financial rewards of American Water's success.

FREQUENTLY ASKED QUESTIONS

How does the plan reward performance?

The AIP allows us to differentiate and reward the performance of employees who contribute to the achievement of the company's goals. The 2014 AIP directly ties award payouts to measurable contributions (company, organizational group/ functional area and individual) to American Water's success.

Who is eligible for the AIP?

All regular, full-time exempt employees are eligible to participate. If you join American Water on or before September 30, 2014, you are also eligible to participate in the plan on a prorated basis.

What do I have to do to receive an AIP award?

Any payout will depend largely on your performance, as well as on company, organizational group/functional area performance (including both financial and non financial), which determines funding.

If your performance is rated "Needs Improvement" or higher, you may receive an award payout — but only if threshold company performance metrics have been met. If your performance rating is "Unacceptable" or "Too Soon to Rate," you will not receive a payout. To maximize your award opportunity, it's important to meet with your manager to establish meaningful performance goals, and then work hard throughout the year to achieve those goals.

How is my AIP target award opportunity determined? How can I find out what it is?

Your AIP target award opportunity is based on your job and is expressed as a percentage of your base salary. Please see your manager to learn more about your target award opportunity for 2014.

How will my AIP award payout be calculated?

The size of the pool which funds your award is determined based on overall corporate performance and adjusted to reflect specific organizational group/functional area results. AIP funding for all eligible employees will depend on the company and/or organizational group/functional area achieving its non financial operational goals as well as financial goals. Once individual awards are calculated, they are paid from the organizational group/functional area funding.

What is the minimum and maximum that could be paid under the plan (as a percent of target)?

AIP award payouts can range from zero, to a maximum of an Individual Performance Factor of 200%. Payouts are capped at 200% of AIP target award.

Will I receive an award payout if I meet my individual performance goals but the company does not achieve minimum (threshold) performance?

No. A pre-determined financial threshold for company performance must be met in order for funding and any award to be provided under the AIP.

What happens if I leave American Water before I receive my award payout?

To receive the award payout, you must be actively employed with American Water on the date the payment is to be made. You (or your beneficiary) may be eligible for a prorata award if you are disabled, retire, die, involuntarily terminate (not "for cause") or a divestiture occurred on or after July 1, 2014. (Retirement under this plan is age 55 and 10 total years of employment service.) Employees involuntarily terminated for cause would not be eligible.

What happens if I change job positions or I receive a merit increase within American Water during the plan year?

In either scenario, your award payout will be based on your base salary and target level percentage as of December 12, 2014.

ATTACHMENT A

2014 AIP FINANCIAL PAYOUT CURVE

Diluted Earnings Per Share (55%)

% TARGET	ACHIEVED % PAYOUT
103.0%	150.0%
102.4%	140.0%
101.8%	130.0%
101.2%	120.0%
100.6%	110.0%
100.0%	100.0%
98.8%	85.0%
97.6%	70.0%
96.4%	55.0%
95.2%	40.0%
94.0%	25.0%
<94.0%	0.0%

2014 AIP OPERATIONAL MEASURES
NON FINANCIAL PERFORMANCE (45%)

Environmental Compliance (10%)

For determining environmental compliance, American Water will count Notices of Violation (NOVs) for which the company is responsible as described in the Environmental Non-Compliance Reporting Practice. For 2014, American Water's NOV target is 13.

NOVs	AWARD
7	150.0%
9	137.5%
11	125.0%
12	112.5%
13	100.0%
14	87.5%
15	75.0%
16	62.5%
17	50.0%
>17	0.0%

Safety Performance (15%)

Safety performance will be determined using the OSHA Recordable Incident Rate (ORIR), which measures injuries and illnesses requiring treatment beyond first aid per 200,000 hours worked. For 2014, the goal has been set at a rate less than 2.75 with the Regulated Operations at a rate less than 2.86 and the Market Based goal at a rate of less than 2.05. These goals will be evaluated against the graduated award scale below and discretion of management.

ORIR	AWARD
2.55	150.0%
2.60	137.5%
2.65	125.0%
2.75	112.5%
< 2.75	100.0%
2.85	87.5%
2.95	75.0%
3.05	62.5%
3.15	50.0%
>3.15	0.0%

Service Quality (10%)

This metric is measured by the Service Quality Survey (SQS) which is conducted throughout the year for customers requesting service resulting in completion of a service order by a Field Service Representative (FSR). The score is based on the survey question "Overall, how satisfied were you with the outcome of your service contact?" which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied). The American Water target for 2014 is 85% extremely or very satisfied customers, and the graduated award scale is provided below.

SQS %	AWARD
90	150%
89	140%
88	130%
87	120%
86	110%
85	100%
84	90%
83	80%
82	70%
81	60%
80	50%
< 80	0%

Customer Satisfaction (10%)

This metric measures overall customer satisfaction through a random customer survey containing the question "Overall, how satisfied have you been with (Company Name) in general during the past twelve months?", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied). Response percentages in the top three categories are indicative of overall customer satisfaction levels and a 90% target has been set for 2014.

CSS%	AWARD
95	150%
94	140%
93	130%
92	120%
91	110%
90	100%
89	90%
88	80%
87	70%
86	60%
85	50%
<85	0%

ATTACHMENT B

2014 ANNUAL INCENTIVE PLAN TARGETS

Exempt Positions

GRADE	AIP%
ML4	30%
L5–L6	20%
L7	15%
L8–L9	10%
L10–L12	5%

AMERICAN WATER

[illegible]
[illegible]

Exhibit 10.2

AMERICAN WATER

Kellye L. Walker
Chief Administrative Officer,
General Counsel and Secretary
1025 Laurel Oak Road
Voorhees, NJ 08043
P 856.346.8200
F 856.346.5817

March 7, 2014

Via e-mail and Overnight Delivery
Ms. Linda Sullivan
33111 Canyon Quail Trail
Agua Dulce, CA 91390

Dear Ms. Sullivan:

On behalf of American Water, I am pleased to extend our offer of employment to you for the position of Senior Vice President and Chief Financial Officer of American Water. Your expected first day of employment will be on or about May 1, 2014. We anticipate that you will find this new role to be personally rewarding and one in which you can make significant contributions to the Company. The following represents our offer to you:

Base Salary

You will be paid bi-weekly at the rate of $17,692.30 and when annualized would be approximately $460,000. The salary grade for your position will be ML2.

2014 Annual Incentive Plan (AlP) Eligibility

You will be eligible to participate in the Company's Annual Incentive Plan with a target bonus award payout of 75% of your annual base salary. Any amount awarded to you as a participant under the Annual Incentive Plan will be determined in accordance with the terms of that plan. Actual payout of the Annual Incentive Plan bonus is discretionary and based on factors including company performance and individual performance objectives. For 2014, you will be eligible for a full-year AIP payout based on your target level and the above noted factors.

2014 Long Term Incentive Plan (LTIP) Eligibility

You will be eligible for a full equity award under the Company's Long Term Incentive Plan at a target payout of 125% of your annual base salary, beginning in 2014, as approved by the Compensation Committee of the American Water Board of Directors. The 2014 award will be granted and priced as of your start date.

Additiona1 2014 LTIP Equity Grant

You are entitled to receive additional equity of $500,000 which will be granted on your start date. This grant will be 70% Performance Share Units based on Total Stockholder Return and American Water internal metrics and 30% Restricted Stock Units.

Benefits

American Water offers a comprehensive benefits package, the provisions of which will begin on the first of the month after one full calendar month of employment including medical insurance, dental insurance, life insurance, and short- and long-term disability insurance.

You will be eligible to participate in the Company's Savings and Investment Program (401k). You can roll over other qualified savings and investment retirement programs into the American Water plan. You will also be eligible to participate in the Non-Qualified Savings and Deferred Compensation Program and our Executive Physical Program in accordance with the terms of the plan details. Please refer to the enclosed 2014 Executive Benefits at a Glance documents for benefit details.

Vacation/Holidays

You will be eligible for 20 vacation days in 2014. In addition, you will be eligible for six (6) floating holidays in a calendar year.

Relocation

You will be eligible for the Gold package for the relocation benefits under American Water's relocation policy according to the parameters of our policy and eligibility criteria as set forth by the IRS. The policy states that if an employee resigns within 12 months of the date of his/her relocation, they are required to reimburse 100% of the relocation expenses to the Company. The management of your relocation will be handled by NEI Global Relocation.

Executive Severance Policy

You will be an eligible participant under the executive severance policy which provides severance benefits to executives whose employment is involuntarily terminated by American Water for reasons other than cause. Under the policy, you will receive salary continuation benefits in the form of 12 months of your base salary, plus a prorated annual incentive payment. A copy of the Executive Severance Policy will be available to you at your request.

We are looking forward to a favorable decision from you and you joining the American Water team. Please signify your acceptance of this offer of employment by signing this letter and returning it to me by email or by facsimile.

Sincerely,

/s/ Kellye L. Walker
Kellye L. Walker

Enclosures

This offer of employment extended by American Water is contingent upon successful completion of a drug screen, applicable background checks, verification of authorization to work and all information supplied on the resume and other information supplied by you, and the absence of any Non-Compete or Non-Solicitation Agreement with a prior employer.

I, Linda Sullivan, understand that my employment will be "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

/s/ Linda Sullivan
Signature: Linda Sullivan

3/10/14
Date

Exhibit 10.3

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of February 20, 2014 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _______________ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted pursuant to the 2014 LTIP to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this grant (the " Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant ________________ units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).

2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.

3. Vesting.

(a) Except as provided in subparagraph (c) below, the Restricted Stock Units shall vest on the following dates (each a " Service Date"), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

Date	Units Vesting
January 1, 2015	1/3
January 1, 2016	1/3
January 1, 2017	1/3

(b) If at any time prior to the last Service Date the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(c) If at any time prior to the last Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then all of the unvested Restricted Stock Units shall become vested on the date of the Change of Control. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under Code section 409A, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control.

(d) The date on which all or any portion of the Restricted Stock Unit becomes vested as described in this Paragraph 3 shall hereinafter be referred to as the "Vesting Date".

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units shall be redeemed by the Company on the applicable Vesting Date or as soon as administratively practicable thereafter, but not later than forty-five (45) days following the Vesting Date, (the " Redemption Date"). On the Redemption Date (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan.

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.
Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the " Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in Paragraph 3(c) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable

law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.3A

AMENDMENT TO
AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

This AMENDMENT TO RESTRICTED STOCK UNIT GRANT (the "Amendment"), dated as of April 28, 2014 (the "Date of Amendment"), is delivered by American Water Works Company, Inc. (the "Company") to ______________________ (the "Participant") to amend that certain RESTRICTED STOCK UNIT GRANT.

RECITALS

WHEREAS, the Company has previously awarded the Participant a Restricted Stock Unit Grant dated February 20, 2014 (the " Grant Agreement"), governed by the terms of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan");

WHEREAS, the Committee has determined to amend the Grant Agreement to cause the Participant to become vested upon the attainment of certain age and service conditions;

NOW, THEREFORE, the parties to this Amendment, intending to be legally bound hereby, agree as follows:

1. Vesting Upon Retirement. Notwithstanding any provision of the Grant Agreement to the contrary, if, on or after the first Vesting Date, the Participant's employment or service with the Employer terminates (for any reason other than for Cause) after the Participant's attainment of age 62 and completion of five (5) total years of service with the Employer, the Restricted Stock Units shall vest immediately as of the date of termination. For purposes of this Amendment, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

2. Redemption. The Restricted Stock Units shall be redeemed by the Company as otherwise provided by the Grant Agreement. The redemption of Restricted Stock Units or distribution of any related amounts shall not be affected or accelerated as a result of this Amendment.

3. No Other Changes to Grant Agreement. The terms otherwise set forth under the Grant Agreement shall not be modified by this Amendment except as expressly amended above.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Amendment , effective as of the Date of Amendment.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.4

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 20, 2014, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _______________ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the " Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the " Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on the performance goal relating to the Company's Total Stockholder Return shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _______________ performance stock units (the " Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goal and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goal described in Paragraph 3 below (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goal.

(a) Unless a Change of Control (as defined below) occurs prior to the end of Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") (as described in subparagraph (c) below) will be compared to the TSR of the companies in the Peer Group (as defined below) over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR percentile ranking relative to the TSR performance of the companies in the Peer Group, as follows:

Level of Achievement	**Percentile Ranking Relative to Peer Group**	**Percentage of Target Award Earned**
Maximum	75%	175%
Target	50%	100%
Threshold	25%	25%

If the Company’s actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company’s actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company’s actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2013, and December 31, 2016, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. To determine stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. Dividend adjusted price shall be obtained from Bloomberg. The dividend adjusted price obtained from Bloomberg provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \frac{(\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price})}{\text{Dividend Adjusted Initial Stock Price}}$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period, the Committee will determine whether and to what extent the performance goal has been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the “Change of Control Date”). For purposes of this Grant, the term “Change of Control” shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and its corresponding regulations.

(f) For purposes of this Grant, the term “Performance Period” shall mean the three-year period beginning on January 1, 2014 and ending December 31, 2016, and the term “Peer Group” shall mean those companies that comprise the Dow Jones U.S. Utilities Index as of January 1, 2014. If a company in the Peer Group ceases to be a member of the Dow Jones U.S. Utilities Index at any time during the Performance Period, such company shall no longer be a company in the Peer Group.

4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2015, but prior to January 1, 2016; (ii) 2/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2016, but prior to January 1, 2017; and (iii) 3/3, if the Participant’s employment or service terminates with the Employer on or after January 1, 2017. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2015 or a Change of Control, the Participant’s employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant’s termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant 's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goal. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2017 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goal and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2014 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the " Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

i. to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, _assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

ii. that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. The Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the

Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.4A

AMENDMENT TO
AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This AMENDMENT TO PERFORMANCE STOCK UNIT GRANT (the "Amendment"), dated as of April 28, 2014 (the "Date of Amendment"), is delivered by American Water Works Company, Inc. (the "Company") to ______________________ (the "Participant") to amend that certain PERFORMANCE STOCK UNIT GRANT.

RECITALS

WHEREAS, the Company has previously awarded the Participant a Performance Stock Unit Grant dated February 20, 2014 that may be earned based on the performance goal relating to the Company's Total Stockholder Return (the "Grant Agreement"), governed by the terms of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan");

WHEREAS, the Committee has determined to amend the Grant Agreement to cause the Participant to become vested upon the attainment of certain age and service conditions;

NOW, THEREFORE, the parties to this Amendment, intending to be legally bound hereby, agree as follows:

1. Vesting Upon Retirement. Notwithstanding any provision of the Grant Agreement to the contrary, if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by or provide service to the Employer (for any reason other than for Cause) after the Participant's attainment of age 62 and completion of five (5) total years of service with the Employer, the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period.

2. No Other Changes to Grant Agreement. The terms otherwise set forth under the Grant Agreement shall not be modified by this Amendment except as expressly amended above.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Amendment, effective as of the Date of Amendment.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.5

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 20, 2014, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _______________ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on performance goals relating to compounded earnings per share growth and operational efficiency improvement, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _______________ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals (as defined below) and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").

Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

2. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term “Performance Period” shall mean the three-year period beginning on January 1, 2014 and ending December 31, 2016.

3. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2015, but prior to January 1, 2016; (ii) 2/3, if the Participant’s employment or service with the Employer terminates on or after January 1, 2016, but prior to January 1, 2017; and (iii) 3/3, if the Participant’s employment or service terminates with the Employer on or after January 1, 2017. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2015 or a Change of Control, the Participant’s employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant’s termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant’s employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, the term “Cause” shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

4. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2017 (the “Distribution Date”), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be forfeited.

5. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2014 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant’s election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant’s earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the “Deferred Date.”

6. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the “ Dividend Equivalent Account”) the value of the dividends that would have been distributed if the Performance Units credited to the Participant’s Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the

Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.5A

AMENDMENT TO
AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This AMENDMENT TO PERFORMANCE STOCK UNIT GRANT (the "Amendment"), dated as of April 28, 2014 (the "Date of Amendment"), is delivered by American Water Works Company, Inc. (the "Company") to ______________________ (the "Participant") to amend that certain PERFORMANCE STOCK UNIT GRANT.

RECITALS

WHEREAS, the Company has previously awarded the Participant a Performance Stock Unit Grant dated February 20, 2014 that may be earned based on performance goals relating to compounded earnings per share growth and operational efficiency improvement (the "Grant Agreement"), governed by the terms of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan");

WHEREAS, the Committee has determined to amend the Grant Agreement to cause the Participant to become vested upon the attainment of certain age and service conditions;

NOW, THEREFORE, the parties to this Amendment, intending to be legally bound hereby, agree as follows:

1. Vesting Upon Retirement. Notwithstanding any provision of the Grant Agreement to the contrary, if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer (for any reason other than for Cause) after the Participant's attainment of age 62 and completion of five (5) total years of service with the Employer, the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period.

2. No Other Changes to Grant Agreement. The terms otherwise set forth under the Grant Agreement shall not be modified by this Amendment except as expressly amended above.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Amendment, effective as of the Date of Amendment.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.6

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of February 20, 2014, (the "Date of Grant") is delivered by American Water Works Company, Inc. (the "Company") to _______________ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the " Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the " Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the " Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase _______________ shares of Company Stock, at an exercise price of $44.06 per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

Date	Shares for Which the Option is Exercisable
January 1, 2015	1/3
January 1, 2016	1/3
January 1, 2017	1/3

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2017, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term " Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control. For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and its corresponding regulations.

3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2020, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's termination of employment or service on account of death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination of employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained both (A) at least age 55, and (B) total years of employment and service with the Employer equals or exceeds 10.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), Normal Retirement, death or Total Disability, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause, death, Total Disability or Normal Retirement.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 20 20. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price, together with any applicable tax withholding, shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise, equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The Participant may not exercise the Option unless the exercise of the Option and the issuance of shares of Company Stock complies with all applicable laws, rules, and regulations. The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company shall be relieved of any liability with respect to any delayed issuance of shares of Company Stock or its failure to issue shares of Company Stock if such delay or failure is necessary to comply with applicable laws. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to, or for sale in connection with, any distribution of the shares of Company Stock, or such other representations as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and the Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all decisions and determinations of the Committee with respect to the Grant and the Plan shall be final and binding on the Participant and the Participant's beneficiaries and any other person claiming an interest under this Grant and the Plan on behalf of the Participant.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the exercise of the Option shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

9. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

10. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

11. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

12. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

13. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

14. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

15. Taxation; Code Section 409A. The Plan and this Grant are intended to comply with the requirements of Code section 409A, to the extent applicable. This award shall be construed and administered such that the award either (i) qualifies for an exemption from the requirements of Code section 409A or (ii) satisfies the requirements of Code section 409A. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

16. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

17. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.6A

AMENDMENT TO
AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
NONQUALIFIED STOCK OPTION GRANT

This AMENDMENT TO NONQUALIFIED STOCK OPTION GRANT (the "Amendment"), dated as of April 28, 2014 (the "Date of Amendment"), is delivered by American Water Works Company, Inc. (the "Company") to ______________________ (the "Participant") to amend that certain NONQUALIFIED STOCK OPTION GRANT.

RECITALS

WHEREAS, the Company has previously awarded the Participant a Nonqualified Stock Option Grant dated February 20, 2014 (the " Grant Agreement"), governed by the terms of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan");

WHEREAS, the Committee has determined to amend the Grant Agreement to cause the Participant to become vested upon the attainment of certain age and service conditions;

NOW, THEREFORE, the parties to this Amendment, intending to be legally bound hereby, agree as follows:

1. Exercisability of Option Upon Retirement. Notwithstanding any provision of the Grant Agreement to the contrary, if, on or after the first vesting date specified in Section 2(a), the Participant's employment or service with the Employer terminates (for any reason other than for Cause) after the Participant's attainment of age 62 and completion of at least five (5) total years of employment or service with the Employer, the Option shall become fully exercisable as of the date of termination.

2. Term of Option. If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination of employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained either (A) both (i) at least age 55 and (ii) at least 10 total years of employment or service with the Employer, or (B) both (i) at least age 62, and (ii) at least five (5) total years of employment or service with the Employer.

3. No Other Changes to Grant Agreement. The terms otherwise set forth under the Grant Agreement shall not be modified by this Amendment except as expressly amended above.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Amendment , effective as of the Date of Amendment.

AMERICAN WATER WORKS COMPANY, INC.

By: Jeffry E. Sterba

Its: President and CEO

Exhibit 10.7

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of February 20, 2014 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Jeffry E. Sterba (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted pursuant to the 2014 LTIP to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _______units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).

2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.

3. Vesting.

(a) Except as provided in subparagraph (c) below, the Restricted Stock Units shall vest on the following date (the "Service Date"), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

Date	Units Vesting
January 1, 2015	100

(b) If at any time prior to the Service Date, the Participant's employment or service with the Employer is terminated by the Participant for Good Reason, by the Employer without Cause, or on account of death or Total Disability (each as defined below), then all of the unvested Restricted Stock Units will immediately vest and the Participant will earn all of the Restricted Stock Units that would have been earned if the Participant had remained employed through the Service Date. For purposes of this Grant, the term "Good Reason" shall mean have the meaning that is provided in the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, and the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If at any time prior to the Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then all of the unvested Restricted Stock Units shall become vested on the date of the Change of Control. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under Code section 409A, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control.

(d) The date on which all or any portion of the Restricted Stock Unit becomes vested as described in this Paragraph 3 shall hereinafter be referred to as the "Vesting Date".

(e) If at any time prior to the Vesting Date, the Participant's employment or service with the Employer is terminated on account of Cause, all of the Restricted Stock Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Units. For purposes of this Grant, the term " Cause" shall mean a finding by the Company, as determined in accordance with the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, that the Participant (A) has breached his employment or service contract with the Company; (B) has been convicted of, or pleaded guilty or nolo contender to a charge of, fraud, embezzlement, theft, or other felony; (C) except as required by order of a court of competent jurisdiction, has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; or (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Company.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units shall be redeemed by the Company on the applicable Vesting Date or as soon as administratively practicable thereafter, but not later than forty-five (45) days following the Vesting Date, (the " Redemption Date"). On the Redemption Date (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan.

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code.
Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the " Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in Paragraph 3(c) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees :

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board of Directors

Exhibit 10.8

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of February 20, 2014, (the "Date of Grant") is delivered by American Water Works Company, Inc. (the "Company") to Jeffry E. Sterba (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the " Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the " Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the " Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase _______ shares of Company Stock, at an exercise price of $44.06 per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

Date	Shares for Which the Option is Exercisable
January 1, 2015	100%

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2015, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated by the Participant for Good Reason, by the Company without Cause, or on account of death or Total Disability (each as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer. For purposes of this Grant, the term "Good Reason" shall mean have the meaning that is provided in the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, and the term " Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control. For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and its corresponding regulations.

3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2020, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), the expiration of the two (2)- year period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause.

(ii) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant 's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term " Cause" shall mean a finding by the Company, as determined in accordance with the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, that the Participant (A) has breached his employment or service contract with the Company; (B) has been convicted of, or pleaded guilty or nolo contendere to a charge of, fraud, embezzlement, theft, or other felony; (C) except as required by order of a court of competent jurisdiction, has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; or (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Company.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 20 20. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price , together with any applicable tax withholding, shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise, equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The Participant may not exercise the Option unless the exercise of the Option and the issuance of shares of Company Stock complies with all applicable laws, rules, and regulations. The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company shall be relieved of any liability with respect to any delayed issuance of shares of Company Stock or its failure to issue shares of Company Stock if such delay or failure is necessary to comply with applicable laws. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to, or for sale in connection with, any distribution of the shares of Company Stock, or such other representations as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and the Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all decisions and determinations of the Committee with respect to the Grant and the Plan shall be final and binding on the Participant and the Participant's beneficiaries and any other person claiming an interest under this Grant and the Plan on behalf of the Participant.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the exercise of the Option shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

9. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

10. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

11. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

12. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

13. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

14. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

15. Taxation; Code Section 409A. The Plan and this Grant are intended to comply with the requirements of Code section 409A, to the extent applicable. This award shall be construed and administered such that the award either (i) qualifies for an exemption from the requirements of Code section 409A or (ii) satisfies the requirements of Code section 409A. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

16. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

17. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: <u>Chairman of the Board of Directors</u>

Firmwide:125783979.3 076170.1015

Exhibit 10.9

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 20, 2014, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Jeffry E. Sterba (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the " Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on the performance goal relating to the Company's Total Stockholder Return shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goal and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goal described in Paragraph 3 below (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goal.

(a) Unless a Change of Control (as defined below) occurs prior to the end of Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") (as described in subparagraph (c) below) will be compared to the TSR of the companies in the Peer Group (as defined below) over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR percentile ranking relative to the TSR performance of the companies in the Peer Group, as follows:

Level of Achievement	**Percentile Ranking Relative to Peer Group**	**Percentage of Target Award Earned**
Maximum	75%	175%
Target	50%	100%
Threshold	25%	25%

If the Company's actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company's actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company's actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2013, and December 31, 2016, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. To determine stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. Dividend adjusted price shall be obtained from Bloomberg. The dividend adjusted price obtained from Bloomberg provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \frac{(\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price})}{\text{Dividend Adjusted Initial Stock Price}}$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period, the Committee will determine whether and to what extent the performance goal has been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2014 and ending December 31, 2016, and the term "Peer Group" shall mean those companies that comprise the Dow Jones U.S. Utilities Index as of January 1, 2014. If a company in the Peer Group ceases to be a member of the Dow Jones U.S. Utilities Index at any time during the Performance Period, such company shall no longer be a company in the Peer Group.

4.Termination of Employment or Service.

(a) If the Participant's employment or service with the Employer is terminated prior to January 1, 2015 by the Participant for Good Reason, by the Company without Cause, or on account of death or Total Disability (each as defined below), the Participant will earn all of the Performance Units that would have been earned if the Participant had remained employed through January 1, 2015 if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. For purposes of this Grant, the term "Good Reason" shall mean have the meaning that is provided in the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, and the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration. Any Performance Units that are earned pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) If the Participant continues to be employed by, or providing service to, the Employer from the Date of Grant through January 1, 2015 or a Change of Control, or if the Participant's employment or service with the Employer is terminated prior to January 1, 2015 by the Company without Cause, by the Participant for Good Reason, or on account of death or Total Disability, the Participant will earn all of the Performance Units, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant's employment or service with the Employer is terminated prior to January 1, 2015 by the Company without Cause, by the Participant for Good Reason, or on account of death or Total Disability, the Participant will earn all of the Performance Units, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. Any Performance Units that are earned pursuant to this Paragraph 4(b) will be distributed in accordance with Paragraph 5.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goal. For purposes of this Grant, the term "Cause" shall mean a finding by the Company, as determined in accordance with the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, that the Participant (A) has breached his employment or service contract with the Company; (B) has been convicted of, or pleaded guilty or nolo contender to a charge of, fraud, embezzlement, theft, or other felony; (C) except as required by order of a court of competent jurisdiction, has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; or (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Company.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2017 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goal and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2014 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the " Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

i. to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, _assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

ii. that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. The Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be

deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board of Directors

Exhibit 10.10

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 20, 2014, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Jeffry E. Sterba (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees will be granted equity awards (collectively, the " Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the " Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on performance goals relating to compounded earnings per share growth and operational efficiency improvement, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the " Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant ___________ performance stock units (the " Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals (as defined below) and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the " Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the " Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2014 and ending December 31, 2016.

4. Termination of Employment or Service.

(a) If the Participant's employment or service with the Employer is terminated prior to January 1, 2015 by the Participant for Good Reason, by the Company without Cause, or on account of death or Total Disability (each as defined below), the Participant will earn all of the Performance Units that would have been earned if the Participant had remained employed through January 1, 2015 if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. For purposes of this Grant, the term "Good Reason" shall mean have the meaning that is provided in the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, and the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration. Any Performance Units that are earned pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) If the Participant continues to be employed by, or providing service to, the Employer from the Date of Grant through January 1, 2015 or a Change of Control, or if the Participant's employment or service with the Employer is terminated prior to January 1, 2015 by the Company without Cause, by the Participant for Good Reason, or on account of death or Total Disability, the Participant will earn all of the Performance Units, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant's employment or service with the Employer is terminated prior to January 1, 2015 by the Company without Cause, by the Participant for Good Reason, or on account of death or Total Disability, the Participant will earn all of the Performance Units, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. Any Performance Units that are earned pursuant to this Paragraph 4(b) will be distributed in accordance with Paragraph 5.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Company, as determined in accordance with the Amended Employment Letter Agreement between the Participant and the Company that is dated March 26, 2012, that the Participant (A) has breached his employment or service contract with the Company; (B) has been convicted of, or pleaded guilty or nolo contender to a charge of, fraud, embezzlement, theft, or other felony; (C) except as required by order of a court of competent jurisdiction, has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; or (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Company.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2017 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2014 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the " Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock.

At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board of Directors

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Jeffry Sterba, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2014

By: /s/ JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2014

By: /s/ SUSAN N. STORY
Susan N. Story
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2014, as filed with the Securities and exchange Commission on the date hereof (the “Report”), I, Jeffry Sterba, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JEFFRY STERBA
Jeffry Sterba
President and Chief Executive Officer
(Principal Executive Officer)

May 7, 2014

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO PURSUANT TO U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2014, as filed with the Securities and exchange Commission on the date hereof (the “Report”), I, Susan N. Story, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
Senior Vice President and Chief Financial Officer

May 7, 2014

AWK 10-Q 6/30/2014

Section 1: 10-Q (10-Q)

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 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

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

Class	Outstanding at 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
ASSETS		
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
TOTAL ASSETS	$ 15,426,447	$ 15,088,142

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)

	June 30, 2014	December 31, 2013
CAPITALIZATION AND LIABILITIES		
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)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 15,426,447	$ 15,088,142

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 June 30,		Six Months Ended 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.

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	Six Months Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH FLOWS FROM FINANCING ACTIVITIES		
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 $9,136 at June 30, 2014 and 2013, respectively	8,401	10,861
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.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements 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	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					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	Total Stockholders' Equity
Balance at December 31, 2012	176,988	$ 1,770	$6,222,644	$ (1,664,955)	$ (116,191)	0	$ 0	$ 1,720	$ 4,444,988
Net income	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.

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.

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

	Regulated Unit		Market-Based Operations		Consolidated		
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Total Net
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.

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 Funded Status	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 June 30,		Six Months Ended 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:

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2014	539	$ 36.27
Granted	228	45.45
Performance share adjustment	113	30.34
Vested	(325)	31.77
Forfeited	(5)	39.44
Non-vested total at June 30, 2014	550	$ 41.48

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

	2014	2013
Intrinsic value	$ 14,266	$ 13,559
Income tax benefit	1,551	2,049

If dividends are paid with respect to shares of the Company’s common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $417 and $200 to retained earnings during the six months ended June 30, 2014 and 2013, 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 June 30, 2014, there were 1,310 shares of common stock reserved for issuance under the ESPP. During the six months ended June 30, 2014, the Company issued 53 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	June 30, 2014	December 31, 2013
Long-term debt of American Water Capital Corp. ("AWCC") (a)					
Private activity bonds and government funded debt					
Fixed rate	1.79%-6.75%	5.61%	2018-2040	$ 332,415	$ 330,732
Senior notes					
Fixed rate	3.85%-8.27%	5.69%	2016-2042	3,312,752	3,312,761
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate	0.00%-6.20%	4.67%	2014-2041	869,476	863,716
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2015-2039	676,500	676,500
Mandatorily redeemable preferred stock	8.47%-9.75%	8.61%	2019-2036	17,702	18,902
Capital lease obligations	12.17%	12.17%	2026	899	913
Long-term debt				5,209,744	5,203,524
Unamortized debt, net (b)				34,323	35,984
Interest rate swap fair value adjustment				4,471	4,724
Total long-term debt				$ 5,248,538	$ 5,244,232

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

The Company issued the following long-term debt during 2014.

Company	Type	Rate	Maturity	Amount
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2033	$ 9,977

(1) Issuance which was initially kept in Trust pending the Company's certification that it has incurred qualifying capital expenditures. This issuance has been presented as non-cash in the accompanying Consolidated Statements of Cash Flows.

The Company also assumed debt of $1,683 related to an acquisition in the second quarter of 2014.

The following long-term debt was retired through sinking fund payments and maturities during 2014:

Company	Type	Rate	Maturity	Amount
American Water Capital Corp.	Senior notes—fixed rate	6.00%	2039	$ 9
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	4,217
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments			14
Total retirements and redemptions				$ 5,440

(1) Includes $875 of non-cash defeasance via the use of restricted funds

Interest income included in interest, net is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	$ 2,126	$ 2,845	$ 5,503	$ 5,680

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	June 30, 2014	December 31, 2013
Regulatory and other long-term assets		
Other	$ 4,573	$ 4,776
Long-term debt		
Long-term debt	4,471	4,724

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 June 30,		Six Months Ended June 30,	
Income statement classification	2014	2013	2014	2013
Interest, net				
Gain (loss) on swap	$ 174	$ (2,381)	$ (203)	$ (3,054)
Gain (loss) on borrowing	(75)	2,132	253	2,680
Hedge ineffectiveness	99	(249)	50	(374)

Note 7: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $702,438 (net of discount of $69) at June 30, 2014 and $630,307 (net of discount of $193) at December 31, 2013. During the first six months of 2014, the Company borrowed $35,000 with maturities greater than three months, and repaid $35,000 and $221,000 borrowed in 2014 and 2013, respectively, with maturities greater than three months.

Note 8: Income Taxes

The Company’s estimated annual effective tax rate was 39.8% for the six months ended June 30, 2014 and June 30, 2013, excluding various discrete items.

The Company’s actual effective tax rates were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Actual effective tax rate	39.8%	39.6%	39.8%	38.1%

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

Current deferred tax assets increased in 2014 due to the expected utilization of certain tax attributes within the next 12 months.

Note 9: Pension and Other Postretirement Benefits

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Components of net periodic pension benefit cost				
Service cost	$ 7,944	$ 9,468	$ 15,887	$ 18,936
Interest cost	19,163	17,024	38,326	34,048
Expected return on plan assets	(23,710)	(22,107)	(47,419)	(44,214)
Amortization of:				
Prior service cost (credit)	181	181	362	362
Actuarial (gain) loss	(32)	9,292	(65)	18,585
Net periodic pension benefit cost	$ 3,546	$ 13,858	$ 7,091	$ 27,717
Components of net periodic other postretirement benefit cost				
Service cost	$ 2,765	$ 3,821	$ 5,529	$ 7,641
Interest cost	7,151	7,175	14,302	14,350
Expected return on plan assets	(6,875)	(7,571)	(13,750)	(15,142)
Amortization of:				
Prior service cost (credit)	(547)	(547)	(1,094)	(1,094)
Actuarial (gain) loss	(20)	2,782	(40)	5,564
Net periodic other postretirement benefit cost	$ 2,474	$ 5,660	$ 4,947	$ 11,319

The Company contributed $15,365 to its defined benefit pension plans in the first six months of 2014 and expects to contribute $22,100 during the balance of 2014. In addition, the Company contributed $6,068 for the funding of its other postretirement plans in the first six months of 2014 and expects to contribute $6,069 during the balance of 2014.

Note 10: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At June 30, 2014, the Company has accrued approximately $1,700 as probable costs and it is reasonably possible that additional losses could range up to $31,400 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements recovered by plaintiffs in such claims or actions, if any, will not have a material adverse effect on the Company’s results of operations, financial position or cash flows, individually or in the aggregate.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company’s military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenue of $2,264,137 at June 30, 2014. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company’s Operations and Maintenance agreements with municipalities and other customers expire between 2014 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $920,680 at June 30, 2014. Some of the Company’s long-term contracts to operate and maintain a municipality’s, federal government’s or other party’s water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

In addition to the reasonably possible amounts disclosed above, in September 2010, the Company declared an “impasse” in negotiations of its national benefits agreement with most of the labor unions representing employees in the Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. The Company implemented its last, best and final offer on January 1, 2011 to enable the Company to provide health care coverage for its employees in accordance with terms of the offer. The unions challenged the Company’s right to implement its last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board (“NLRB”) issued a complaint against the Company in January 2012, claiming that the Company implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor, in violation of Section 8(d)(3) of the National Labor Relations Act (the “NLRA”) and, therefore, the Company failed and refused to bargain with the union in violation of Sections 8(a)(1) and 8(a)(5) of the NLRA. The Company asserted that it did, in fact, provide sufficient notice under the circumstances pertaining to the negotiations.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although the Company did provide sufficient notification to the Federal Mediation and Conciliation Service, it did not provide notice to the state agencies, in violation of Section 8(d)(3) of the NLRA and, consequently, the Company violated Sections 8(a)(1) and 8(a)(5) of the NLRA. The Administrative Law Judge ordered, among other things, that the Company cease and desist from implementing the terms of its last, best and final offer without complying with the requirements of Section 8(d)(3) of the NLRA and make whole all affected employees for losses suffered as a result of the Company's implementation of its last, best and final offer.

In November 2012, the Company filed exceptions to the decision of the Administrative Law Judge in order to obtain a review by the full NRLB. The NLRB delegated its authority in the proceeding to a three member panel, which decided, on July 31, 2014, to affirm the Administrative Law Judge's decision and order, subject to certain modifications, including the requirement that in addition to lump sum awards to make whole all affected employees for losses suffered as a result of the Company's implementation of its last, best and final offer, the Company must compensate the affected employees for the adverse tax consequences, if any, of receiving the lump sum "make whole" payments.

On August 1, 2014, the Company filed an appeal of the NLRB's ruling with the United States Court of Appeals for the Seventh Circuit.

The "make whole" order, if upheld on appeal, would require the Company to provide back pay plus interest, from January 1, 2011 through the date of the final determination, as well as any applicable tax reimbursement. Based on current assumptions, the Company estimates that the cash impact could be up to the range of $3,500 to $4,500 per year (exclusive of any additional tax compensation payments), with the total impact dependent on the length of time the issue remains unresolved.

Note 11: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $2,200 and $3,300 at June 30, 2014 and December 31, 2013, respectively. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 through 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at June 30, 2014 and December 31, 2013 include $7,645 and $8,027, respectively, related to the NOAA agreement.

Note 12: Earnings per Common Share

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

The following is a reconciliation of the Company’s net income and weighted-average common shares outstanding for calculating basic earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
Basic	2014	2013	2014	2013
Net income	$ 109,299	$ 101,263	$ 177,422	$ 158,906
Less: Distributed earnings to common shareholders	55,647	49,913	105,775	49,922
Less: Distributed earnings to participating securities	17	22	32	22
Undistributed earnings	53,635	51,328	71,615	108,962
Undistributed earnings allocated to common shareholders	53,619	51,307	71,593	108,921
Undistributed earnings allocated to participating securities	16	21	22	41
Total income available to common shareholders, basic	$ 109,266	$ 101,220	$ 177,368	$ 158,843
Weighted-average common shares outstanding, basic	178,863	177,716	178,702	177,522
Basic net income per common share	$ 0.61	$ 0.57	$ 0.99	$ 0.89

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

The following is a reconciliation of the Company’s net income and weighted-average common shares outstanding for calculating diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
Diluted	2014	2013	2014	2013
Total income available to common shareholders, basic	$ 109,266	$ 101,220	$ 177,368	$ 158,843
Undistributed earnings for participating securities	16	21	22	41
Total income available to common shareholders, diluted	$ 109,282	$ 101,241	$ 177,390	$ 158,884
Weighted-average common shares outstanding, basic	178,863	177,716	178,702	177,522
Common stock equivalents:				
Restricted stock units	379	450	358	432
Stock options	449	742	451	760
Employee stock purchase plan	2	2	1	2
Weighted-average common shares outstanding, diluted	179,693	178,910	179,512	178,716
Diluted net income per common share	$ 0.61	$ 0.57	$ 0.99	$ 0.89

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	346	342	490	342
Restricted stock units where certain performance conditions were not met	80	149	80	149

Note 13: Fair Value of Assets and Liabilities

Fair Value of Financial Instruments

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

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments are as follows:

		At Fair Value as of June 30, 2014			
Recurring Fair Value Measures	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 17,614	$ 0	$ 0	$ 22,594	$ 22,594
Long-term debt (excluding capital lease obligations)	5,230,028	2,414,488	1,492,834	2,198,648	6,105,970

		At Fair Value as of December 31, 2013			
Recurring Fair Value Measures	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 18,827	$ 0	$ 0	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

Included in the long-term debt carrying amount above is a fair value adjustment related to the Company's interest rate swap fair value hedge, which is classified as Level 2 within the fair value hierarchy.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2014 and December 31, 2013, respectively:

	At Fair Value as of June 30, 2014			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Restricted funds	$ 41,184	$ 0	$ 0	$ 41,184
Rabbi trust investments	0	425	0	425
Deposits	1,123	0	0	1,123
Mark-to-market derivative asset	0	4,573	0	4,573
Total assets	42,307	4,998	0	47,305
Liabilities				
Deferred compensation obligation	0	11,297	0	11,297
Mark-to-market derivative liability	0	1,177	0	1,177
Total liabilities	0	12,474	0	12,474
Total net assets (liabilities)	$ 42,307	$ (7,476)	$ 0	$ 34,831

	At Fair Value as of December 31, 2013			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Restricted funds	$ 29,259	$ 0	$ 0	$ 29,259
Rabbi trust investments	0	444	0	444
Deposits	1,901	0	0	1,901
Mark-to-market derivative asset	0	4,776	0	4,776
Total assets	31,160	5,220	0	36,380
Liabilities				
Deferred compensation obligation	0	11,928	0	11,928
Mark-to-market derivative liability	0	1,276	0	1,276
Total liabilities	0	13,204	0	13,204
Total net assets (liabilities)	$ 31,160	$ (7,984)	$ 0	$ 23,176

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Note 14: Segment Information

The Company has two operating segments that are also the Company's two reportable segments, referred to as Regulated Businesses and Market-Based Operations. The following table includes the Company's summarized segment information:

	As of or for the Three Months Ended June 30, 2014			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 678,101	$ 85,403	$ (4,345)	$ 759,159
Depreciation and amortization	98,181	1,635	6,046	105,862
Total operating expenses, net	435,429	73,033	(3,077)	505,385
Income (loss) before income taxes	182,418	12,968	(13,897)	181,489
Total assets	13,857,864	293,696	1,274,887	15,426,447
Capital expenditures	207,985	1,330	0	209,315

	As of or for the Three Months Ended June 30, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 647,897	$ 80,755	$ (4,387)	$ 724,265
Depreciation and amortization	93,473	1,753	6,140	101,366
Total operating expenses, net	419,517	67,321	(4,460)	482,378
Income (loss) before income taxes	170,007	14,207	(16,495)	167,719
Total assets	13,138,907	262,453	1,593,127	14,994,487
Capital expenditures	215,091	1,653	0	216,744

	As of or for the Six Months Ended June 30, 2014			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 1,285,745	$ 164,201	$ (8,841)	$ 1,441,105
Depreciation and amortization	196,964	3,239	11,737	211,940
Total operating expenses, net	867,386	141,845	(7,996)	1,001,235
Income (loss) before income taxes	297,446	23,599	(26,550)	294,495
Total assets	13,857,864	293,696	1,274,887	15,426,447
Capital expenditures	399,564	2,217	0	401,781

	As of or for the Six Months Ended June 30, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 1,221,134	$ 148,091	$ (8,823)	$ 1,360,402
Depreciation and amortization	185,330	3,512	12,173	201,015
Total operating expenses, net	835,033	129,702	(10,453)	954,282
Income (loss) before income taxes	268,788	19,878	(32,136)	256,530
Total assets	13,138,907	262,453	1,593,127	14,994,487
Capital expenditures	427,356	2,474	0	429,830

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as “may,” “should,” “will,” “could,” “estimates,” “predicts,” “potential,” “continue,” “anticipates,” “believes,” “plans,” “expects,” “future” and “intends” and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the “Risk Factors” section or other sections in the Company’s annual report on Form 10-K (“Form 10-K”) for the year ended December 31, 2013 filed with the Securities and Exchange Commission (“SEC”). We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. (herein referred to as “American Water” or the “Company”) is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies (“PUCs”) in the states in which they operate. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by the PUCs. We report the results of these businesses in our Market-Based Operations segment. For further description of our businesses see Item 1, “Business,” in our Form 10-K for the year ended December 31, 2013.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K for the year ended December 31, 2013.

Overview

Financial Results. For the three months ended June 30, 2014, we reported net income of $109.3 million, or diluted earnings per share (“EPS”) of $0.61, compared to $101.3 million, or diluted EPS of $0.57, for the comparable period in 2013. For the six months ended June 30, 2014, we reported net income of $177.4 million, or diluted EPS of $0.99 compared to $158.9 million, or diluted EPS of $0.89, for the comparable period in 2013

The primary factors contributing to the increase in net income for both the three and six months ended June 30, 2014 compared to the same periods in 2013 were favorable operating results from our Regulated Business segment despite higher costs resulting from the Freedom Industries chemical spill in West Virginia and higher customer uncollectible expense. Also contributing to the increase in net income for the year-to-date results was higher operating income from the Market-Based Operations segment and lower interest expense. For further details, see “Consolidated Results of Operations and Variances” and “Segment Results” below.

For 2014, our goals include actively addressing regulatory lag and promoting constructive regulatory frameworks, continuing to improve our regulated operation and maintenance (“O&M”) efficiency ratio, making efficient use of our capital and expanding both our Regulated Businesses segment through focused acquisitions and/or organic growth and our Market-Based Operations segment through core growth, expanding markets and new offerings. In addition, we will continue to focus on our customer service by achieving established customer satisfaction and service quality targets. Regarding environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage.

In the second half of 2014, we expect to receive decisions on two general rate case proceedings, continue to file infrastructure surcharges either as part of our general rate case filings or in separate filings, and continue to pursue appropriate pass-through mechanisms for certain costs and forward-looking adjustments or mechanisms, including those that recognize declining usage.

The progress that we have made in the six months of 2014 with respect to certain of these objectives is described below.

Promoting Constructive Regulatory Frameworks. On April 1, 2014, the final $1.2 million of annualized revenues, previously approved by the New York State Public Service Commission in March of 2012, became effective. Also on April 1, 2014, additional annualized revenues of $0.2 million resulting from a New York infrastructure charge filing in January 2014 went into effect.

Effective April 15, 2014, additional annualized revenues of approximately $0.5 million attributable to alternative rate mechanisms including a Qualified Infrastructure Investment Program Rider, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider and a Production Costs and Other Pass-through mechanism became effective for our Tennessee subsidiary.

New rates, which were approved for our Iowa subsidiary’s general rate case in February 2014, became effective on April 18, 2014. Additional annualized revenues as a result of this rate increase amounted to approximately $3.8 million. The increase includes approximately $2.7 million of interim rates that were effective May 10, 2013.

On May 30, 2014, annualized revenues of $3.7 million resulting from infrastructure charges in our Missouri subsidiary became effective.

The table below provides further details of annualized revenues, assuming a constant volume, resulting from rate authorizations granted in 2014:

	Annualized Rate Increases Granted	
	For the three months ended June 30, 2014	**For the six months ended June 30, 2014**
	(In millions)	
State		
General Rate Cases		
New York	$ 1.2	$ 1.2
Iowa	3.8	3.8
Total General Rate cases	$ 5.0	$ 5.0
Infrastructure charges		
New York	$ 0.2	$ 1.8
New Jersey	—	10.1
Missouri	3.7	3.7
Illinois	—	2.1
Tennessee	0.5	0.5
Total Infrastructure charges	$ 4.4	$ 18.2

On July 1, 2014, additional annualized revenue of $7.4 million resulting from infrastructure charges in our New Jersey subsidiary became effective.

In July 2014, a settlement with the Office of Ratepayer Advocates and other interveners was reached in our general rate case in California. The settlement, if approved, would provide $13.6 million in additional annualized revenues for 2015. The settlement also provides for escalation and attrition adjustments in 2016 and 2017 of $5.0 million and $6.3 million, respectively. The agreement is pending regulatory approval and is subject to change.

As of August 4, 2014, we are awaiting final orders for general rate cases in two states, including California, requesting additional annualized revenue of approximately $52.0 million. There is no assurance that all, or any portion, of these requested increases will be granted.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses. Our O&M efficiency ratio (a non-GAAP measure) is calculated on our Regulated Businesses’ operations and is defined as operation and maintenance expense divided by operating revenues where both O&M and operating revenues are adjusted to eliminate the impact of purchased water. We also exclude the allocable portion of non-O&M support services costs, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the Statement of Operations. Our O&M efficiency ratio was 37.5% for the three months ended June 30, 2014, compared to 38.1% for the three months ended June 30, 2013. Our O&M efficiency ratio was 39.4% for the six months ended June 30, 2014, compared to 40.4% for the six months ended June 30, 2013. The change in our 2014 O&M efficiency ratio for both the three and six months ended June, 2014 was primarily attributable to the increase in our Regulated Businesses' revenue.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses' operations. This information is intended to enhance an investor's overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies' operating measures and should not be used in place of the GAAP information provided elsewhere in this report. The following table provides a reconciliation that compares O&M and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our O&M efficiency ratio for the three and six months ended June 30, 2014 as compared to the same periods in 2013:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure):

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Total O&M	$ 342,974	$ 323,320	$ 672,249	$ 635,523
Less:				
O&M—Market-Based Operations	70,440	64,122	136,280	123,346
O&M—Other	(11,587)	(13,093)	(25,979)	(29,056)
Total Regulated O&M	284,121	272,291	561,948	541,233
Less:				
Regulated purchased water expense	32,576	26,819	59,658	50,803
Allocation of internal O&M	9,544	8,590	19,536	18,144
Adjusted Regulated O&M (a)	$ 242,001	$ 236,882	$ 482,754	$ 472,286
Total Operating Revenues	$ 759,159	$ 724,265	$ 1,441,105	$ 1,360,402
Less:				
Operating revenues—Market-Based Operations	85,403	80,755	164,201	148,091
Operating revenues—Other	(4,345)	(4,387)	(8,841)	(8,823)
Total Regulated operating revenues	678,101	647,897	1,285,745	1,221,134
Less: Regulated purchased water expense*	32,576	26,819	59,658	50,803
Adjusted Regulated operating revenues (b)	$ 645,525	$ 621,078	$ 1,226,087	$ 1,170,331
Regulated O&M efficiency ratio (a)/(b)	37.5%	38.1%	39.4%	40.4%

* Calculation assumes purchased water revenues are equal to purchased water expenses.

Making Efficient Use of Capital. We made capital investments of approximately $212.7 million and $387.9 million during the three months and six months ended June 30, 2014, respectively. Of this total year-to-date investment, approximately $383.6 million was for Company-funded capital improvements with the remaining $4.3 million for the acquisition of regulated water and/or wastewater systems. For the full-year of 2014, we continue to estimate our total capital plan to be up to $1.1 billion, with approximately $900 million to $1.0 billion allocated to upgrading our infrastructure and systems and $35 to $100 million for acquisitions and strategic investment purposes.

Expanding Markets and Developing New Offerings. During the six months ended June 30, 2014, our Regulated Businesses completed the purchase of four regulated water systems and one regulated water and wastewater system. These acquisitions added approximately 1,200 water customers and 370 wastewater customers to our regulated operations. Also, as previously announced, in January 2014, our Military Services Group within our Market-Based Operations segment was awarded a contract for ownership, operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. Additionally, in the first half of 2014 our Homeowner Services Group ("HOS") expanded its water and sewer line protection programs into Arkansas, Louisiana, Maine, Minnesota, Oklahoma, Vermont and Wyoming.

Other Matters.

West Virginia Freedom Industries Chemical Spill. As noted in the Form 10-K for the year ended December 31, 2013, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked 4-methylcyclohexane methanol, or MCHM, and PPH/DiPHH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant in Charleston, West Virginia. As a result of this event, income before income taxes was reduced by $5.0 million and $10.9 million for the three and six months ended June 30, 2014, respectively.

See Part II, Item 1, “Legal Proceedings” in this report for information regarding litigation and an investigation by the Public Service Commission of West Virginia relating to the Freedom Industries chemical spill. The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries chemical spill, and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

Labor Dispute Regarding National Benefits Agreement. In September 2010, the Company declared an “impasse” in negotiations of its national benefits agreement with most of the labor unions representing employees in the Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. The Company implemented its last, best and final offer on January 1, 2011 to enable the Company to provide health care coverage for its employees in accordance with terms of the offer. The unions challenged the Company’s right to implement its last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board (“NLRB”) issued a complaint against the Company in January 2012, claiming that the Company implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor, in violation of Section 8(d)(3) of the National Labor Relations Act (the “NLRA”) and, therefore, the Company failed and refused to bargain with the union in violation of Sections 8(a)(1) and 8(a)(5) of the NLRA. The Company asserted that it did, in fact, provide sufficient notice under the circumstances pertaining to the negotiations.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although the Company did provide sufficient notification to the Federal Mediation and Conciliation Service, it did not provide notice to the state agencies, in violation of Section 8(d)(3) of the NLRA and, consequently, the Company violated Sections 8(a)(1) and 8(a)(5) of the NLRA. The Administrative Law Judge ordered, among other things, that the Company cease and desist from implementing the terms of its last, best and final offer without complying with the requirements of Section 8(d)(3) of the NLRA and make whole all affected employees for losses suffered as a result of the Company’s implementation of its last, best and final offer.

In November 2012, the Company filed exceptions to the decision of the Administrative Law Judge in order to obtain a review by the full NRLB. The NLRB delegated its authority in the proceeding to a three member panel, which decided, on July 31, 2014, to affirm the Administrative Law Judge’s decision and order, subject to certain modifications, including the requirement that in addition to lump sum awards to make whole all affected employees for losses suffered as a result of the Company’s implementation of its last, best and final offer, the Company must compensate the affected employees for the adverse tax consequences, if any, of receiving the lump sum “make whole” payments.

On August 1, 2014, the Company filed an appeal of the NLRB’s ruling with the United States Court of Appeals for the Seventh Circuit.

The “make whole” order, if upheld on appeal, would require the Company to provide back pay plus interest, from January 1, 2011 through the date of the final determination, as well as any applicable tax reimbursement. Based on current assumptions, the Company estimates that the cash impact could be up to the range of $3.5 million to $4.5 million per year (exclusive of any additional tax compensation payments), with the total impact dependent on the length of time the issue remains unresolved.

Consolidated Results of Operations and Changes from Prior Periods

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Favorable (Unfavorable) Change	2014	2013	Favorable (Unfavorable) Change
Operating revenues	$ 759,159	$ 724,265	$ 34,894	$ 1,441,105	$ 1,360,402	$ 80,703
Operating expenses						
Operation and maintenance	342,974	323,320	(19,654)	672,249	635,523	(36,726)
Depreciation and amortization	105,862	101,366	(4,496)	211,940	201,015	(10,925)
General taxes	56,894	57,806	912	117,661	117,952	291
(Gain) loss on asset dispositions and purchases	(345)	(114)	231	(615)	(208)	407
Total operating expenses, net	505,385	482,378	23,007	1,001,235	954,282	46,953
Operating income	253,774	241,887	11,887	439,870	406,120	33,750
Other income (expenses)						
Interest, net	(73,668)	(77,757)	4,089	(147,228)	(155,871)	8,643
Allowance for other funds used during construction	2,058	3,699	(1,641)	4,259	7,095	(2,836)
Allowance for borrowed funds used during construction	1,271	1,770	(499)	2,754	3,423	(669)
Amortization of debt expense	(1,629)	(1,624)	(5)	(3,302)	(3,205)	(97)
Other, net	(317)	(256)	(61)	(1,858)	(1,032)	(826)
Total other income (expenses)	(72,285)	(74,168)	1,883	(145,375)	(149,590)	4,215
Income before income taxes	181,489	167,719	13,770	294,495	256,530	37,965
Provision for income taxes	72,190	66,456	(5,734)	117,073	97,624	(19,449)
Net income	$ 109,299	$ 101,263	$ 8,036	$ 177,422	$ 158,906	$ 18,516
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	

The following is a discussion of the consolidated results of operations for the three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013:

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Operating revenues. Consolidated operating revenues for the three months ended June 30, 2014 increased $34.9 million, or 4.8%, compared to the same period in 2013. The increase is the result of higher revenues in our Regulated Businesses segment of $30.2 million, which is mainly attributable to rate increases, incremental revenues from surcharges, amortization of balancing accounts and acquisitions. Also, contributing to the higher revenues was a $4.6 million increase in our Market-Based Operations segment primarily due to incremental revenue from our military contracts as a result of increased construction type projects at Forts Polk and Leavenworth as well as contract growth in our HOS. For further information, see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated O&M for the three months ended June 30, 2014 increased by $19.7 million, or 6.1%, compared to the same period in 2013. The variance is primarily due to higher O&M costs in our Regulated Businesses segment of $11.8 million, principally due to increased production costs, uncollectible expense, maintenance and costs associated with the Freedom Industries chemical spill in West Virginia, partially offset by lower employee-related costs. Additionally, our Market-Based Operations segment O&M increased by $6.3 million mainly as a result of incremental cost related to increased activity in our military contracts, corresponding with the increased revenue. For further discussions on the changes in our Regulated and Market-Based segments' O&M, see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $4.5 million, or 4.4%, for the three months ended June 30, 2014, compared to the same period in the prior year principally as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that went into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $1.9 million, or 2.5%, for the three months ended June 30, 2014, compared to the same period in the prior year. The change is primarily due to a reduction in interest expense resulting from interest savings as a result of our 2013 refinancings, offset by a reduction in AFUDC which is mainly attributable to our Customer Information and Enterprise Asset Management systems being placed into service in the second and fourth quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $5.7 million, or 8.6%, to $72.2 million for the three months ended June 30, 2014. The effective tax rates for the three months ended June 30, 2014 and 2013 were 39.8% and 39.6%, respectively.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Operating revenues. Consolidated operating revenues for the six months ended June 30, 2014 increased $80.7 million, or 5.9%, compared to the same period in 2013. The increase is the result of higher revenues in our Regulated Businesses segment of $64.6 million, which is mainly attributable to rate increases, incremental revenues from surcharges and amortization of balancing accounts as well as increased usage. Also contributing to the higher revenues was a $16.1 million increase in our Market-Based Operations segment primarily due to incremental revenue from our military contracts as a result of increased construction type projects at Forts Belvoir, Polk and Leavenworth and contract growth in our HOS. For further information, see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated O&M for the six months ended June 30, 2014 increased by $36.7 million, or 5.8%, compared to the same period in 2013. The variance is primarily due to higher O&M costs in our Regulated Businesses segment of $20.7 million, principally due to increased production costs, uncollectible expense, maintenance and costs associated with the Freedom Industries chemical spill in West Virginia, partially offset by lower employee-related costs. The variance in our Market-Based Operations segment of $12.9 million was mainly from incremental costs related to increased activity in our military contracts, corresponding with the increased revenue. For further discussions on the changes in our Regulated and Market-Based segments’ O&M, see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $10.9 million, or 5.4%, for the six months ended June 30, 2014, compared to the same period in the prior year principally as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that went into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $4.2 million, or 2.8%, for the six months ended June 30, 2014, compared to the same period in the prior year. The change is primarily due to a reduction in interest expense resulting from interest savings as a result of our 2013 refinancings, offset by a reduction in AFUDC which is mainly attributable to our Customer Information and Enterprise Asset Management systems being placed into service in the second and fourth quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $19.4 million, or 19.9%, to $117.1 million for the six months ended June 30, 2014. The effective tax rates for the six months ended June 30, 2014 and 2013 were 39.8% and 38.1%, respectively. The 2013 rate included a $3.3 million tax benefit associated with a legal structure reorganization in our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards prior to their expiration.

Segment Results

We have two operating segments that are also our reportable segments: the Regulated Businesses and the Market-Based Operations. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the three months ended June 30,			For the six months ended June 30,		
	2014	**2013**	**Increase (Decrease)**	**2014**	**2013**	**Increase (Decrease)**
			(In thousands)			
Operating revenues	$ 678,101	$ 647,897	$ 30,204	$ 1,285,745	$ 1,221,134	$ 64,611
Operation and maintenance expense	284,121	272,291	11,830	561,948	541,233	20,715
Operating expenses, net	435,429	419,517	15,912	867,386	835,033	32,353
Income before income taxes	182,418	170,007	12,411	297,446	268,788	28,658

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business generally is subject to PUC economic regulation, and our results of operations are impacted significantly by rates authorized by the PUCs in the states in which we operate.

Operating revenues increased by $30.2 million, or 4.7%, for the three months ended June 30, 2014, as compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $20.8 million attributable to rate increases from rate authorizations for a number of our operating companies; approximately $1.4 million resulting from higher consumption, $3.1 million due to increased surcharges and amortization of balancing accounts and approximately $3.5 million attributable to acquisitions, most of which occurred in the second half of 2013. The most significant contributor to the increase in revenues from acquisitions was Dale Service Corporation (“Dale”), which was acquired by our Virginia subsidiary in the fourth quarter of 2013.

Operating revenues increased by $64.6 million, or 5.3%, for the six months ended June 30, 2014, as compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $40.6 million attributable to rate increases from rate authorizations for a number of our operating companies; $8.4 million due to increased surcharges and amortization of balancing accounts; approximately $7.2 million from higher consumption and $6.8 million as a result of 2013 acquisitions. The most significant contributor to the increase in revenues from acquisitions was Dale. The following table provides information regarding the Regulated Businesses' for the periods indicated:

	For the three months ended June 30,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$ 364,906	$ 354,318	$ 10,588	3.0%	41,705	42,463	(758)	(1.8%)
Commercial	130,617	128,908	1,709	1.3%	19,092	19,418	(326)	(1.7%)
Industrial	31,419	28,817	2,602	9.0%	9,591	8,271	1,320	16.0%
Public and other	81,293	77,238	4,055	5.3%	12,510	12,663	(153)	(1.2%)
Other water revenues	7,822	3,852	3,970	103.1%	—	—	—	—
Billed water services	616,057	593,133	22,924	3.9%	82,898	82,815	83	0.1%
Unbilled water services	23,246	23,545	(299)	(1.3%)				
Total water service revenues	639,303	616,678	22,625	3.7%				
Wastewater service revenues	24,254	20,351	3,903	19.2%				
Other revenues	14,544	10,868	3,676	33.8%				
	$ 678,101	$ 647,897	$ 30,204	4.7%				

	For the six months ended June 30,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$ 718,430	$ 680,460	$ 37,970	5.6%	81,642	80,451	1,191	1.5%
Commercial	260,436	242,982	17,454	7.2%	38,081	36,340	1,741	4.8%
Industrial	64,988	57,018	7,970	14.0%	19,406	17,154	2,252	13.1%
Public and other	165,259	151,191	14,068	9.3%	25,919	24,290	1,629	6.7%
Other water revenues	8,599	8,986	(387)	(4.3%)	—	—	—	—
Billed water services	1,217,712	1,140,637	77,075	6.8%	165,048	158,235	6,813	4.3%
Unbilled water services	(2,961)	18,085	(21,046)	(116.4%)				
Total water service revenues	1,214,751	1,158,722	56,029	4.8%				
Wastewater service revenues	46,662	40,235	6,427	16.0%				
Other revenues	24,332	22,177	2,155	9.7%				
	$1,285,745	$1,221,134	$ 64,611	5.3%				

Water Services – Water service operating revenues for the three months ended June 30, 2014 totaled $639.3 million, a $22.6 million increase, or 3.7%, over the same period of 2013. For the six months ended June 30, 2014, these revenues increased $56.0 million, or 4.8%, compared to the six months ended June 30, 2013. As described above, the increases for both the three and six months ended June 30, 2014 are primarily due to rate increases, higher consumption and incremental revenues associated with surcharges and amortization of balancing accounts. Also, it should be noted that the mix between billed revenues and unbilled revenues for the six months ended June 30, 2014, as compared to the same period in 2013, has changed. This change is principally the result of the implementation of our Customer Information System ("CIS") as part of Phase II of our business transformation project. At December 31, 2013, unbilled revenues were significantly higher than historical levels due to billing delays in certain accounts. During the first quarter of 2014, we addressed a majority of these delayed billings. Therefore, as a result, the change in unbilled water revenue for the first six months of 2014, compared to the same period in 2013, has decreased by $21.0 million with a corresponding increase in billed revenues.

Wastewater services – Our subsidiaries provide wastewater services in ten states. Revenues from these services increased $3.9 million, or 19.2%, and $6.4 million, or 16.0%, for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013. The increase is primarily attributable to the Dale acquisition in the fourth quarter of 2013.

Other revenues – The increase in the other revenues for the three and six months ended June 30, 2014 is principally due to $2.4 million in insurance proceeds for business interruption as a result of Hurricane Sandy and an increase in late payment fees.

Operation and maintenance expense. Operation and maintenance expense increased $11.8 million, or 4.3%, and $20.7 million, or 3.8%, for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013.

The following table provides information regarding operation and maintenance expense for the three and six months ended June 30, 2014 and 2013, by major expense category:

	For the three months ended June 30,				For the six months ended June 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs	$ 74,141	$ 65,155	$ 8,986	13.8%	$ 143,400	$ 125,605	$ 17,795	14.2%
Employee-related costs	107,599	115,283	(7,684)	(6.7%)	214,780	228,484	(13,704)	(6.0%)
Operating supplies and services	53,991	55,423	(1,432)	(2.6%)	110,256	109,783	473	0.4%
Maintenance materials and supplies	17,713	14,097	3,616	25.7%	38,160	32,376	5,784	17.9%
Customer billing and accounting	16,082	12,015	4,067	33.8%	29,287	22,187	7,100	32.0%
Other	14,595	10,318	4,277	41.5%	26,065	22,798	3,267	14.3%
Total	$ 284,121	$ 272,291	$ 11,830	4.3%	$ 561,948	$ 541,233	$ 20,715	3.8%

Production costs by major expense type were as follows:

	For the three months ended June 30,				For the six months ended June 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Purchased Water	$ 32,576	$ 26,819	$ 5,757	21.5%	$ 59,658	$ 50,803	$ 8,855	17.4%
Fuel and Power	21,217	20,259	958	4.7%	45,135	40,237	4,898	12.2%
Chemicals	12,127	11,330	797	7.0%	22,795	21,934	861	3.9%
Waste Disposal	8,221	6,747	1,474	21.8%	15,812	12,631	3,181	25.2%
Total	$ 74,141	$ 65,155	$ 8,986	13.8%	$ 143,400	$ 125,605	$ 17,795	14.2%

Production costs increased overall by $9.0 million, or 13.8%, and $17.8 million, or 14.2%, for the three and six months ended June 30, 2014, respectively, compared to the same periods in the prior year. The purchased water increases principally reflect increased prices in our California subsidiary. Fuel and power costs increased due to increased customer demand and higher supplier prices in several of our operating facilities as well as incremental costs as a result of the Dale acquisition in the fourth quarter of 2013. The increase in waste disposal costs for both the three and six month periods is principally due to an increase in the amount allowed by a cost recovery mechanism in one of our operating companies and the Dale acquisition. Also, contributing to the six month increase was incremental costs associated with the Freedom Industries chemical spill in West Virginia.

Employee-related costs, including salaries and wages, group insurance and pension expense, decreased $7.7 million, or 6.7%, and $13.7 million, or 6.0%, for the three and six months ended June 30, 2014, respectively, compared to the prior year periods. These employee-related costs represent approximately 38% and 42% of operation and maintenance expense for the three and six months ended June 30, 2014 and 2013, respectively.

The following table provides information with respect to components of employee-related costs for the three and six months ended June 30, 2014 and 2013:

	For the three months ended June 30,				For the six months ended June 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
				(Dollars in thousands)				
Salaries and wages	$ 82,568	$ 81,561	$ 1,007	1.2%	$ 163,651	$ 160,406	$ 3,245	2.0%
Pensions	6,800	12,257	(5,457)	(44.5%)	13,620	24,628	(11,008)	(44.7%)
Group insurance	13,765	16,803	(3,038)	(18.1%)	28,130	33,647	(5,517)	(16.4%)
Other benefits	4,466	4,662	(196)	(4.2%)	9,379	9,803	(424)	(4.3%)
Total	$ 107,599	$ 115,283	$ (7,684)	(6.7%)	$ 214,780	$ 228,484	$ (13,704)	(6.0%)

The overall decrease in employee-related costs for the three and six months ended June 30, 2014, compared to the same periods in 2013, was primarily due to a reduction in pension costs and postretirement benefit costs, which affects our group insurance expenses. These decreases are principally due to the change in assumptions used for the discount rate, which in turn results in decreased contributions. The decrease in contributions occurred principally at those of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Partially offsetting these decreases was an increase in salaries and wages expense for the three and six months ended June 30, 2014, compared to the same periods in 2013. For the three month period, the increase is the result of severance-related costs and annual wage increases offset by higher capitalization rates as a result of increased capital projects. For the six month period, the increase is the result of severance-related costs, annual wage increases and increased overtime expense attributable to an increased number of main breaks as a result of the harsh winter weather conditions, offset by a reduction in incentive compensation due to a lower than expected payout for the 2013 incentive period as well as higher capitalization rates as a result of increased capital projects.

Operating supplies and services include expenses of office operation, legal and other professional services, transportation expenses, information systems and other office equipment rental charges. These costs decreased $1.4 million, or 2.6%, for the three months ended June 30, 2014 and increased $0.5 million, or 0.4%, for the six months ended June 30, 2014. The overall decrease for the three month period was primarily due to lower contracted services as 2013 included additional costs, mainly as a result of backfilling positions; the use of contractors for certain projects; and incremental costs attributable to the continued maturity of our Enterprise Resource Planning systems in conjunction with the implementation of our business transformation project. Partially offsetting the aforementioned favorability for the six month period was increased costs for our West Virginia subsidiary associated with the Freedom Industries chemical spill which occurred in January 2014.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, increased $3.6 million, or 25.7%, for the three months ended June 30, 2014, compared to the same period in 2013, mainly due to increased tank painting in our New Jersey subsidiary and higher paving and backfilling expenses throughout our operating areas. The increase of $5.8 million, or 17.9%, for the six months ended June 30, 2014, compared to the same period in 2013, is primarily due to the increase in tank painting and increases in paving and backfilling, and other repair costs, most of which is from the higher than normal main breaks in the first quarter of 2014 due to the abnormally harsh winter weather conditions experienced throughout our operating areas.

Customer billing and accounting expenses, which include uncollectible accounts expense, postage and other customer related expenses, increased $4.1 million, or 33.8%, and $7.1 million or 32.0%, respectively, for the three and six months ended June 30, 2014, compared to the same periods in the prior year. These increases are primarily due to incremental uncollectible expense associated with an increase in customer accounts receivable attributable to the overall aging of receivables as well as rate increases. We believe the aging of our receivables is the result of temporary changes made in our collection process with the implementation of our new Customer Information System in 2013. Although we anticipate uncollectible expense will continue to be higher this year, we expect the impact will lesson as our collection activities return to historical levels.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. The increase in casualty and liability insurance for the three and six months ended June 30, 2014 was primarily due to an increase in our expected retroactive premiums, principally due to incremental claims associated with the Freedom Industries chemical spill in West Virginia, net of favorable forecasted experience for already existing claims. These retroactive premiums are based upon current facts and circumstances of the outstanding claims and are subject to change as the claims mature. The increase in insurance costs is partially offset by lower regulatory expenses in one of our operating subsidiaries compared to the same periods in the prior year.

Operating expenses. The increase in operating expenses, for the three and six months ended June 30, 2014, is principally due to the increase in operation and maintenance expense explained above and higher depreciation and amortization expense of $4.7 million and $11.6 million for the three and six months ended June 30, 2014, respectively. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including our SAP Customer Information System and Enterprise Asset Management system.

Market-Based Operations

The following table provides financial information for our Market-Based Operations segment for the periods indicated:

	For the three months ended June 30,			For the six months ended June 30,		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
		(In thousands)				
Operating revenues	$ 85,403	$ 80,755	$ 4,648	$ 164,201	$ 148,091	$ 16,110
Operation and maintenance expense	70,440	64,122	6,318	136,280	123,346	12,934
Operating expenses, net	73,033	67,321	5,712	141,845	129,702	12,143
Income before income taxes	12,968	14,207	(1,239)	23,599	19,878	3,721

Operating revenues. Revenues for the three and six months ended June 30, 2014 increased $4.6 million and $16.1 million, respectively, compared to the same periods in 2013, as a result of incremental revenues in our Contract Operations Group (“ConOp”) and HOS lines of business. For the three and six months ended June 30, 2014, our ConOp’s revenue increased $2.3 million and $9.9 million, respectively. These increases are primarily related to additional revenues from capital project activities associated with our military contracts partially offset by price redeterminations received in 2013 for three of our military contracts totaling $2.3 million as well as a reduction in revenues attributable to terminated municipal and industrial operations and maintenance contracts. HOS revenues increased $3.8 million and $9.0 million for the three and six months ended June 30, 2014, respectively. This increase was principally the result of contract growth, mainly with our New York City contracts as well as expansion into other geographic areas, and price increases for certain existing customers.

Operation and maintenance. Operation and maintenance expense increased $6.3 million, or 9.9%, and $12.9 million, or 10.5%, for the three and six months ended June 30, 2014, respectively.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the three months ended June 30,				For the six months ended June 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
				(Dollars in thousands)				
Production costs	$ 8,948	$ 9,526	$ (578)	(6.1%)	$ 18,922	$ 19,585	$ (663)	(3.4%)
Employee-related costs	16,597	16,176	421	2.6%	31,163	32,507	(1,344)	(4.1%)
Operating supplies and services	32,549	27,026	5,523	20.4%	60,328	48,496	11,832	24.4%
Maintenance materials and supplies	11,099	10,212	887	8.7%	22,602	20,798	1,804	8.7%
Other	1,247	1,182	65	5.5%	3,265	1,960	1,305	66.6%
Total	$ 70,440	$ 64,122	$ 6,318	9.9%	$ 136,280	$ 123,346	$ 12,934	10.5%

As noted in the table above, the primary factor contributing to the overall increase was an increase in operating supplies and services. This increase is mainly attributable to the increase in construction project activities for our military contracts and corresponds with the incremental revenues.

Operating expense. The changes in operating expenses for the three and six months ended June 30, 2014, compared to the same period in 2013, are primarily due to the variances in the operation and maintenance expense explained above.

Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

We rely on our revolving credit facility, the capital markets and our cash flows from operations to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and, to the extent necessary, our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and, from time to time, for direct borrowings. As of June 30, 2014, AWCC had no outstanding borrowings and $40.0 million of outstanding letters of credit under the revolving credit facility. As of June 30, 2014, AWCC had $1.2 billion available under the credit facility that we can use to fulfill our short-term liquidity needs, to issue letters of credit and support our $702.4 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from operating activities for the six months ended June 30, 2014 were $450.6 million compared to $290.2 million for the six months ended June 30, 2013.

The following table provides a summary of the major items affecting our cash flows from operating activities for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,	
	2014	**2013**
	(In thousands)	
Net income	$ 177,422	$ 158,906
Add (subtract):		
Non-cash activities (1)	371,045	329,592
Changes in working capital (2)	(76,419)	(138,808)
Pension and postretirement healthcare contributions	(21,433)	(59,493)
Net cash flows provided by operations	$ 450,615	$ 290,197

(1) Includes depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled utility revenue, taxes receivable including income taxes, other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses segment. We address this timing issue through the aforementioned liquidity funding mechanisms. Our cash collections for our Regulated Businesses' accounts receivable, some of which were unbilled as December 31, 2013, showed improvement during the first half of 2014 compared to the second half of 2013. In the second half of 2013, the rate of cash collections, particularly in those states in which we implemented CIS in the second quarter of 2013, were slower than historical payment patterns. We believe this degradation in cash collections to be a result of certain process decisions, made as part of the CIS implementation, including the manual validation of bills prior to mailing to customers and decreased collection efforts. Therefore, we believe this situation to be only temporary in nature. Although cash collections increased during the first and second quarters of 2014, there are no assurances that the rate of cash collections will continue or be consistent with previous historical collection patterns.

The increase in cash flows from operating activities during the six months ended June 30, 2014 as compared to the same period in 2013 reflects higher net income adjusted for non-cash activities, changes in working capital and a reduction in pension and postretirement benefit contributions. The increase in working capital for the six months ended June 30, 2014 compared to the same period in the prior year is principally the result of increased processing of payments, accounts payable and accrued expenses in the first quarter of 2013, which was attributed to delays in payment of vendor invoices in the latter portion of 2012 as a result of the implementation of Phase I of our business transformation project.

Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities for the periods indicated:

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Net capital expenditures	$ (401,781)	$ (429,830)
Proceeds from sale of assets and securities	665	580
Acquisitions	(2,869)	(4,602)
Other investing activities, net (1)	(34,189)	(25,535)
Net cash flows used in investing activities	$ (438,174)	$ (459,387)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash flows used in investing activities for the six months ended June 30, 2014 was $438.1 million compared to $459.4 million for the six months ended June 30, 2013, reflecting decreased net capital expenditures. Net capital expenditures in 2013 included capital spending for our business transformation project which did not recur in 2014.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be financed with customer advances (net of refunds) and contributions in aid of construction (net of refunds).

As previously noted, AWCC is a wholly-owned finance subsidiary of American Water Works Company, Inc. (the “parent company”). Based on the needs of our regulated subsidiaries and the parent company, AWCC borrows in the capital markets and then, through intercompany loans, provides proceeds of those borrowings to the regulated subsidiaries and the parent company. The regulated subsidiaries and the parent company are obligated to pay to AWCC their respective portion of principal and interest in the amount required to enable AWCC to meet its debt service obligations. Because the parent company borrowings are not a source of capital for the Company’s regulated subsidiaries, the Company is not able to recover the interest charges on parent company debt through regulated water and wastewater rates.

We intend to utilize commercial paper for short-term liquidity, as commercial paper borrowings have historically been a more flexible and lower cost option. However, if necessary, we utilize our credit facility to complement our borrowings in the commercial paper market. In the event of disruptions in the money market sector of the debt capital markets, borrowings under our revolving credit facility may be more efficient and a lower cost alternative to commercial paper.

The following table provides information on long-term debt that was issued during the first six months of 2014:

Company	Type	Rate	Maturity	Amount
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2033	$ 9,977

(1) Proceeds from the above issuance, which were initially kept in Trust, were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash in the accompanying Consolidated Statements of Cash Flows. Subsequent releases of the funds will be reflected as the release of restricted funds in the cash flows from investing activities section of the Consolidated Statements of Cash Flows.

In addition to the above issuance, we also assumed $1.7 million of debt as a result of an acquisition.

The following long-term debt was retired through sinking fund provisions or payment at maturity during the first six months of 2014:

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp.	Senior notes—fixed rate	6.00%	2039	$ 9
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	4,217
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments			14
Total retirements and redemptions				$ 5,440

(1) Includes $0.9 million of non-cash defeasance via the use of restricted funds.

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other transactions.

Credit Facilities and Short-Term Debt

Short-term debt balance, consisting of commercial paper, net of discount, amounted to $702.4 million at June 30, 2014.

The following table provides information as of June 30, 2014 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sub-limit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
	(In thousands)					
June 30, 2014	$ 1,250,000	$ 1,210,035	$ 150,000	$ 110,035	$ 702,438	$ —

The weighted-average interest rate on short-term borrowings for the three months ended June 30, 2014 and 2013 was approximately 0.29% and 0.35%, respectively, and 0.31% and 0.38% for the six months ended June 30, 2014 and 2013, respectively.

Capital Structure

The following table provides information regarding our capital structure for the periods presented:

	At June 30, 2014	At December 31, 2013
Total common stockholders' equity	45%	45%
Long-term debt and redeemable preferred stock at redemption value	48%	49%
Short-term debt and current portion of long-term debt	7%	6%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we, or our subsidiaries, may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements. We do not believe this change will materially impact us. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. As of June 30, 2014, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

On June 2, 2014, Standard & Poor's Rating Service ("S&P"), revised its rating outlook to positive from stable and affirmed its corporate credit rating of A- on AWCC and American Water and of A2 on AWCC's short term rating. The following table shows the Company's securities ratings as of June 30, 2014:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to reference such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

Dividends

Our board of directors' practice has been to distribute to our shareholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Since the dividends on our common stock are not cumulative, only declared dividends will be paid.

On March 3, 2014, we made a cash dividend payment of $0.28 per share to all shareholders of record as of February 3, 2014. On June 2, 2014 we made a quarterly cash dividend payment of $0.31 per share to all shareholders of record as of May 12, 2014.

To permit our shareholders to take advantage of 2012 tax rates, the cash dividend payment that would have historically been paid in March 2013 was paid in December 2012. On June 3, 2013, we made a cash dividend payment of $0.28 per share to all shareholders of record as of May 24, 2013.

On July 30, 2014 our board of directors declared a quarterly cash dividend payment of $0.31 per share payable on September 2, 2014 to all shareholders of record as of August 11, 2014.

Market Risk

There have been no significant changes to our market risk since December 31, 2013. For a discussion of our exposure to market risk, refer to Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," contained in our Form 10-K for the year ended December 31, 2013.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates," in our Form 10-K for the year ended December 31, 2013 for a discussion of our critical accounting policies.

Recent Accounting Pronouncements

See Part I, Item 1 – Financial Statements (Unaudited) – Note 2 – New Accounting Pronouncements in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see "Market Risk" in Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 ("the Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of June 30, 2014 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2014, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Form 10-K") in Part I, Item 3, "Legal Proceedings" and in the Form 10-Q for the quarter ended March 31, 2014 (“Form 10-Q”) in Part II, Item 1, "Legal Proceedings.”

Alternative Water Supply in Lieu of Carmel River Diversions

The Form 10-K describes the Complaint for Declaratory Relief filed by California-American Water Company ("CAWC") against the Marina Coast Water District ("MCWD") and the Monterey County Water Resources Agency ("MCWRA"), which, following a transfer of the case, continued before the San Francisco County Superior Court. The Complaint sought a determination by the Court as to whether certain agreements related to the now-abandoned Regional Desalination Project are void as a result of the alleged conflict of interest of a former director of MCWRA (described in the Form 10-K), or remained valid. As noted in the Form 10-Q, the former director entered a plea of no contest to, among other things, a felony violation of California Government Code section 1090 (“Section 1090”), which precludes public officials from being financially interested in any contract made by them in their official capacity. As also described in the Form 10-Q, the Court ruled that CAWC's action was barred by the statute of limitations, but that MCWRA was subject to a longer statute of limitations under California Government Code section 1092(b), which invalidates contracts made in violation of Section 1090. As further described in the Form 10-Q, MCWRA filed a cross-complaint against MCWD, contending that the agreements were void as a result of the former director's conduct and financial interest in the agreements.

On May 16, 2014, MCWD filed its answer to MCWRA's Cross-Complaint and a demurrer seeking to have CAWC removed as a party to the issue of whether the agreements are void. After a hearing on demurrer, the Court ruled on June 25, 2014 that MCWD’s demurrer was overruled and the case would proceed to trial on the issue of whether the agreements are void. Trial on the issue is scheduled for December 1-5, 2014.

The Form 10-K also describes the filing by CAWC of a formal claim with MCWD seeking monetary damages from MCWD, and the Board of MCWD's notice that it rejected CAWC's claim. As noted in the Form 10-K and Form 10-Q, CAWC and MCWD entered into a tolling agreement and extensions of the agreement with respect to CAWC's claims, which toll applicable statutes of limitations and the deadline for a commencement of litigation regarding CAWC's claims until August 1, 2014. A subsequent agreement between CAWC and MCWD extended the tolling and deadline for the commencement of litigation to December 31, 2014.

West Virginia Elk River Chemical Spill

The Form 10-K and Form 10-Q address, among other things, litigation relating to leakage of two substances from a chemical storage tank owned by Freedom Industries, Inc. into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia.

To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone, and Putnam counties. Fifty-two of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. (“AWWSC,” and together with WVAWC and the Company, the "American Water Defendants") were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases back to the state courts and have been consolidated for the sole purpose of resolving venue issues. Joint briefing on the remand issue for all cases was completed on July 18, 2014. Four of the cases pending before the federal district court were consolidated for purposes of discovery and a new consolidated complaint for those cases was filed on June 20, 2014 by several plaintiffs, including, among others, individuals who allegedly suffered personal injury from the Freedom Industries spill and businesses that allegedly suffered economic harm as a result of the Freedom Industries spill, on behalf of a purported class of individuals and entities that suffered economic losses, property losses and non-economic losses or injuries as a result of the Freedom Industries spill. The complaint names multiple individuals and corporate entities as defendants, including the American Water Defendants. The consolidated complaint's allegations against the American Water Defendants include various forms of negligence, strict products liability, breach of warranty, breach of contract, nuisance, trespass and breach of contract as a result of, among other things, the American Water Defendants' alleged failure to address the foreseeable risk posed by the Freedom Industries facility; failure to operate WVAWC's water treatment plant according to industry standards so as to protect public health and safety; failure to implement an alternative water supply to avoid a risk of water supply contamination allegedly identified by a state agency; and failure to advise the purported class members of the nature of the contaminated water. The plaintiffs seek unspecified compensatory and punitive damages for alleged personal injury, property damage, and financial losses, and certain equitable relief, including the establishment of a medical monitoring program to protect the purported class members from latent, dreaded disease.

On July 20, 2014, WVAWC, AWWSC and the Company each filed a separate Answer to the complaint. Each Answer denied liability to any of the plaintiffs for damages of any kind and asserted a number of affirmative defenses. Also on July 20, 2014, WVAWC and AWWSC together, and the Company separately, filed motions to dismiss the complaint on several grounds, including, in the case of the Company, the lack of jurisdiction over the Company.

On May 21, 2014, the Public Service Commission of West Virginia issued an Order initiating a General Investigation into certain issues relating to WVAWC's response to the Elk River Chemical Spill. WVAWC is subject to discovery from Commission staff and intervenors as part of the General Investigation. The Commission has scheduled a hearing for October 7-9, 2014.

Labor Dispute Regarding National Benefits Agreement

In September 2010, the Company declared an “impasse” in negotiations of its national benefits agreement with most of the labor unions representing employees in the Regulated Businesses. The prior agreement expired on July 31, 2010; however, negotiations did not produce a new agreement. The Company implemented its last, best and final offer on January 1, 2011 to enable the Company to provide health care coverage for its employees in accordance with terms of the offer. The unions challenged the Company’s right to implement its last, best, and final offer. In this regard, following the filing by the Utility Workers Union of America of an unfair labor practice charge, the National Labor Relations Board (“NLRB”) issued a complaint against the Company in January 2012, claiming that the Company implemented the last, best and final offer without providing sufficient notice of the existence of a dispute with the Federal Mediation and Conciliation Service, a state mediation agency, and several state departments of labor, in violation of Section 8(d)(3) of the National Labor Relations Act (the “NLRA”) and, therefore, the Company failed and refused to bargain with the union in violation of Sections 8(a)(1) and 8(a)(5) of the NLRA. The Company asserted that it did, in fact, provide sufficient notice under the circumstances pertaining to the negotiations.

On October 16, 2012, the NLRB Administrative Law Judge hearing the matter ruled that, although the Company did provide sufficient notification to the Federal Mediation and Conciliation Service, it did not provide notice to the state agencies, in violation of Section 8(d)(3) of the NLRA and, consequently, the Company violated Sections 8(a)(1) and 8(a)(5) of the NLRA . The Administrative Law Judge ordered, among other things, that the Company cease and desist from implementing the terms of its last, best and final offer without complying with the requirements of Section 8(d)(3) of the NLRA and make whole all affected employees for losses suffered as a result of the Company’s implementation of its last, best and final offer.

In November 2012, the Company filed exceptions to the decision of the Administrative Law Judge in order to obtain a review by the full NRLB. The NLRB delegated its authority in the proceeding to a three member panel, which decided, on July 31, 2014, to affirm the Administrative Law Judge’s decision and order, subject to certain modifications, including the requirement that in addition to lump sum awards to make whole all affected employees for losses suffered as a result of the Company’s implementation of its last, best and final offer, the Company must compensate the affected employees for the adverse tax consequences, if any, of receiving the lump sum “make whole” payments.

On August 1, 2014, the Company filed an appeal of the NLRB’s ruling with the United States Court of Appeals for the Seventh Circuit.

The “make whole” order, if upheld on appeal, would require the Company to provide back pay plus interest, from January 1, 2011 through the date of the final determination, as well as any applicable tax reimbursement. Based on current assumptions, the Company estimates that the cash impact could be up to the range of $3.5 million to $4.5 million per year (exclusive of any additional tax compensation payments), with the total impact dependent on the length of time the issue remains unresolved.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2013, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

As discussed in Item 1 of our annual report on Form 10-K for the year ended December 31, 2013 under the caption, “Business – Condemnation,” a citizens group in Monterey, California submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of California-American Water Company’s Monterey service district. The election was held in June 2014, and the measure was defeated. However, we cannot assure that a similar measure may not be proposed in the future, or that such a measure, if submitted to a vote, will not be adopted.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
*10.1	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Nonqualified Stock Option Grant Form for Susan N. Story
*10.2	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Performance Stock Unit Grant Form A for Susan N. Story
*10.3	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Performance Stock Unit Grant Form B for Susan N. Story
*10.4	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Restricted Stock Unit Grant Form for Susan N. Story
*10.5	American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan May 2014 Stock Unit Grant Form for Non-Employee Directors
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from American Water Works Company, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, filed with the Securities and Exchange Commission on August 6, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of August, 2014.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

/S/ Susan N. Story
Susan N. Story
President and Chief Executive Officer
Principal Executive Officer

/S/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
Principal Financial Officer

/S/ Mark Chesla
Mark Chesla
Vice President and Controller
Principal Accounting Officer

EXHIBIT INDEX

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* filed herewith.

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
NONQUALIFIED STOCK OPTION GRANT

This STOCK OPTION GRANT, dated as of May 9, 2014, (the "Date of Grant") is delivered by American Water Works Company, Inc. (the "Company") to Susan N. Story (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees were granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP;

WHEREAS, pursuant to the Employment Letter Agreement, dated April 29, 2014, between the Participant and the Company, and in conjunction with the Participant's election to the role of President and Chief Executive Officer effective as of May 9, 2014, the Committee has determined to supplement the Equity Award previously granted to the Participant with an additional four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants (collectively, the "Supplemental Equity Award");and

WHEREAS, the Committee has determined that the nonqualified stock option portion of the Supplemental Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of such nonqualified stock option shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Subject to the terms and conditions set forth in this Grant and in the Plan, the Company hereby grants to the Participant a nonqualified stock option (the "Option") to purchase 14,966 shares of Company Stock, at an exercise price of $46.26 per share of Company Stock.

2. Exercisability of Option.

(a) Except as provided in subparagraphs (b) or (c) below, the Option shall become exercisable on the following dates, if the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable date:

Date	Shares for Which the Option is Exercisable
January 1, 2015	1/3
January 1, 2016	1/3
January 1, 2017	1/3

The exercisability of the Option is cumulative, but shall not exceed 100% of the shares of Company Stock subject to the Option. If the foregoing schedule would produce fractional shares of Company Stock, the number of shares of Company Stock for which the Option becomes exercisable shall be rounded down to the nearest whole share of Company Stock. The Option shall become fully exercisable on January 1, 2017, if the Participant is employed by, or providing service to, the Employer on such date.

(b) If at any time prior to the date the Participant's Option becomes exercisable as described in subparagraph (a) above, the Participant's employment or service with the Employer is terminated on account of death or Total Disability (as defined below), the Option shall become fully exercisable on the date of the Participant's termination of employment or service with the Employer on account of death or Total Disability. For purposes of this Grant, the term "Total Disability" shall mean that the Participant has been determined to be totally disabled by the Social Security Administration.

(c) If a Change of Control occurs while the Participant is employed by or providing service to the Employer, then the Option shall become fully exercisable as of the date of the Change of Control. For purposes of this Grant, the term “Change of Control” shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and its corresponding regulations.

3. Term of Option.

(a) The Option shall have a term from the Date of Grant through December 31, 2020, and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of this Grant or the Plan.

(b) The Option shall automatically terminate upon the happening of the first of the following events:

(i) If the Participant's employment or service with the Employer terminates on account of death or Total Disability, the expiration of the one year period following the date of the Participant's termination of employment or service on account of death or Total Disability.

(ii) If the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), the expiration of the one year period following the date of the Participant's termination of employment or service on account of Normal Retirement. For purposes of this Grant, the term "Normal Retirement" shall mean, at the time of the Participant's termination of employment or service with the Employer, that the Participant has attained both (A) at least age 55, and (B) total years of employment and service with the Employer equals or exceeds 10.

(iii) If the Participant's employment or service with the Employer terminates for any reason other than on account of Cause (as defined below), Normal Retirement, death or Total Disability, the expiration of the ninety (90) day period following the date of the Participant's termination of employment or service for any reason other than on account of termination for Cause, death, Total Disability or Normal Retirement.

(iv) The date on which the Participant ceases to be employed by, or provide service to, the Employer for Cause. In addition, notwithstanding the prior provisions of this Paragraph 3, if the Participant engages in conduct that constitutes Cause after the Participant's employment or service terminates, the Option shall immediately terminate. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

Notwithstanding the foregoing, in no event may the Option be exercised after December 31, 2020. Any portion of the Option that is not exercisable at the time the Participant ceases to be employed by, or provide service to, the Employer shall immediately terminate.

4. Exercise Procedures.

(a) Subject to the provisions of Paragraphs 2 and 3 above, the Participant may exercise part or all of the exercisable portion of the Option by giving the Company written notice of intent to exercise in the manner provided in this Grant, specifying the number of shares of Company Stock as to which the Option is to be exercised and the method of payment. Payment of the exercise price, together with any applicable tax withholding, shall be made in accordance with procedures established by the Committee from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Company Stock. The Participant shall pay the exercise price (i) in cash; (ii) with the approval of the Committee, by delivering shares of Company Stock, which shall be valued at their fair market value on the date of delivery, or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a fair market value on the date of exercise, equal to the exercise price; (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or (iv) by such other method as the Committee may approve, to the extent permitted by applicable law. The Committee may impose from time to time such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option.

(b) The Participant may not exercise the Option unless the exercise of the Option and the issuance of shares of Company Stock complies with all applicable laws, rules, and regulations. The obligation of the Company to deliver shares of Company Stock upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company shall be relieved of any liability with respect to any delayed issuance of shares of Company Stock or its failure to issue shares of Company Stock if such delay or failure is necessary to comply with applicable laws. The Company may require that the Participant (or other person exercising the Option after the Participant's death) represent that the Participant is purchasing the shares of Company Stock for the Participant's own account and not with a view to, or for sale in connection with, any distribution of the shares of Company Stock, or such other representations as the Committee deems appropriate.

(c) All obligations of the Company under this Grant shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable.

5. Change of Control. Except as set above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Option, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

6. Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Participant may exercise the Option during the Participant's lifetime and, after the Participant's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. The Grant and exercise of the Option are subject to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and the Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all decisions and determinations of the Committee with respect to the Grant and the Plan shall be final and binding on the Participant and the Participant's beneficiaries and any other person claiming an interest under this Grant and the Plan on behalf of the Participant.

8. Restrictions on Sale or Transfer of Shares.

(a) The Participant agrees that he or she shall not sell, transfer, pledge, donate, assign, mortgage, hypothecate or otherwise encumber the shares of Company Stock underlying the Option unless the shares of Company Stock are registered under the Securities Act of 1933, as amended (the "Securities Act") or the Company is given an opinion of counsel reasonably acceptable to the Company that such registration is not required under the Securities Act.

(b) As a condition to receive any shares of Company Stock upon the exercise of the Option, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the exercise of the Option shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company’s Board of Directors or a duly authorized committee thereof, from time to time.

9. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

10. No Employment or Other Rights. This Grant shall not confer upon the Participant any right to be retained by or in the employ or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

11. No Stockholder Rights. Neither the Participant, nor any person entitled to exercise the Participant's rights in the event of the Participant's death, shall have any of the rights and privileges of a stockholder with respect to the shares of Company Stock subject to the Option, until certificates for shares of Company Stock have been issued upon the exercise of the Option.

12. Assignment and Transfers. Except as the Committee may otherwise permit pursuant to the Plan, the rights and interests of the Participant under this Grant may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Participant, by will or by the laws of descent and distribution. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Grant, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Participant, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Agreement may be assigned by the Company without the Participant's consent.

13. Effect on Other Benefits. The value of shares of Company Stock received upon exercise of the Option shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

14. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

15. Taxation; Code Section 409A. The Plan and this Grant are intended to comply with the requirements of Code section 409A, to the extent applicable. This award shall be construed and administered such that the award either (i) qualifies for an exemption from the requirements of Code section 409A or (ii) satisfies the requirements of Code section 409A. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

16. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

17. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board

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Section 3: EX-10.2 (EX-10.2)

Exhibit 10.2

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of May 9, 2014, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Susan N. Story (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees were granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP;

WHEREAS, pursuant to the Employment Letter Agreement, dated April 29, 2014, between the Participant and the Company, and in conjunction with the Participant's election to the role of President and Chief Executive Officer effective as of May 9, 2014, the Committee has determined to supplement the Equity Award previously granted to the Participant with an additional four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants (collectively, the "Supplemental Equity Award"); and

WHEREAS, the Committee has determined that the performance stock unit portion of the Supplemental Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on the performance goal relating to the Company's Total Stockholder Return shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 2,288 performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the performance goal and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the performance goal described in Paragraph 3 below (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goal.

(a) Unless a Change of Control (as defined below) occurs prior to the end of Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal described in subparagraph (b) below for the Performance Period and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") (as described in subparagraph (c) below) will be compared to the TSR of the companies in the Peer Group (as defined below) over the Performance Period. The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR percentile ranking relative to the TSR performance of the companies in the Peer Group, as follows:

Level of Achievement	**Percentile Ranking Relative to Peer Group**	**Percentage of Target Award Earned**
Maximum	75%	175%
Target	50%	100%
Threshold	25%	25%

If the Company's actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company's actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company's actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2013, and December 31, 2016, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. To determine stock price performance, a dividend adjustment factor will be determined. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. Dividend adjusted price shall be obtained from Bloomberg. The dividend adjusted price obtained from Bloomberg provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \frac{(\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price})}{\text{Dividend Adjusted Initial Stock Price}}$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period, the Committee will determine whether and to what extent the performance goal has been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2014 and ending December 31, 2016, and the term "Peer Group" shall mean those companies that comprise the Dow Jones U.S. Utilities Index as of January 1, 2014. If a company in the Peer Group ceases to be a member of the Dow Jones U.S. Utilities Index at any time during the Performance Period, such company shall no longer be a company in the Peer Group.

4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the performance goal and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2015, but prior to January 1, 2016; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2016, but prior to January 1, 2017; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 1, 2017. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2015 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the performance goal. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2017 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the performance goal and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2014 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or

herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

i. to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

ii. that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company’s Board of Directors or a duly authorized committee thereof, from time to time.

11. The Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. Grant Subject to Stockholder Approval. This Grant is made subject to, and any payment under this Grant is contingent upon, stockholder reapproval of the material terms of the performance goals of the Plan (or, if amendments to the Plan are proposed that include amendments to the performance goals set forth therein, the material terms of the performance goals as proposed to be amended) in accordance with the requirements of Code section 162(m) at either the Company's 2015 Annual Meeting of Stockholders or at a special meeting of stockholders to be held prior thereto.

14. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

15. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

16. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

17. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee’s discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

18. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

19. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

20. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

21. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute “deferred compensation” under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

22. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board

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Section 4: EX-10.3 (EX-10.3)

Exhibit 10.3

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of May 9, 2014, (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Susan N. Story (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees were granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP;

WHEREAS, pursuant to the Employment Letter Agreement, dated April 29, 2014, between the Participant and the Company, and in conjunction with the Participant's election to the role of President and Chief Executive Officer effective as of May 9, 2014, the Committee has determined to supplement the Equity Award previously granted to the Participant with an additional four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants (collectively, the "Supplemental Equity Award"); and

WHEREAS, the Committee has determined that the performance stock unit portion of the Supplemental Equity Award granted to the Participant pursuant to the 2014 LTIP shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan"), and the terms and conditions of the performance stock unit grant that may be earned based on performance goals relating to compounded earnings per share growth and operational efficiency improvement, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 2,519 performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals (as defined below) and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and certify the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). For purposes of this Grant, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term "Performance Period" shall mean the three-year period beginning on January 1, 2014 and ending December 31, 2016.

4. Termination of Employment or Service.

(a) If, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The prorated portion will be determined as the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2015, but prior to January 1, 2016; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 1, 2016, but prior to January 1, 2017; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 1, 2017. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 1, 2015 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, the term "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earlier of (i) January 1, 2017 (the "Distribution Date"), or (ii) the Change of Control Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the

Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2014 LTIP, and complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected) or the Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. Grant Subject to Stockholder Approval. This Grant is made subject to, and any payment under this Grant is contingent upon, stockholder reapproval of the material terms of the performance goals of the Plan (or, if amendments to the Plan are proposed that include amendments to the performance goals set forth therein, the material terms of the performance goals as proposed to be amended) in accordance with the requirements of Code section 162(m) at either the Company's 2015 Annual Meeting of Stockholders or at a special meeting of stockholders to be held prior thereto.

14. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

15. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

16. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

17. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

18. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

19. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

20. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

21. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute “deferred compensation” under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

22. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board

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Section 5: EX-10.4 (EX-10.4)

Exhibit 10.4

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of May 9, 2014 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to Susan N. Story (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has adopted a 2014 Long Term Incentive Plan ("2014 LTIP") pursuant to which designated employees were granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee determined that the Participant is eligible to participate in the 2014 LTIP and to grant the Participant an Equity Award under the 2014 LTIP;

WHEREAS, pursuant to the Employment Letter Agreement, dated April 29, 2014, between the Participant and the Company, and in conjunction with the Participant's election to the role of President and Chief Executive Officer effective as of May 9, 2014, the Committee has determined to supplement the Equity Award previously granted to the Participant with an additional four separate grants, a nonqualified stock option, a restricted stock unit, and two performance stock unit grants (collectively, the "Supplemental Equity Award"); and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Supplemental Equity Award granted pursuant to the 2014 LTIP to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such restricted stock unit shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 1,679 units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).

2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.

3. Vesting.

(a) Except as provided in subparagraph (c) below, the Restricted Stock Units shall vest on the following dates (each a "Service Date"), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

Date	Units Vesting
January 1, 2015	1/3
January 1, 2016	1/3
January 1, 2017	1/3

(b) If at any time prior to the last Service Date the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(c) If at any time prior to the last Service Date, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, then all of the unvested Restricted Stock Units shall become vested on the date of the Change of Control. For purposes of this Agreement, the term "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under Code section 409A, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control.

(d) The date on which all or any portion of the Restricted Stock Unit becomes vested as described in this Paragraph 3 shall hereinafter be referred to as the "Vesting Date".

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units shall be redeemed by the Company on the applicable Vesting Date or as soon as administratively practicable thereafter, but not later than forty-five (45) days following the Vesting Date, (the "Redemption Date"). On the Redemption Date (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan.

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date. If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in Paragraph 3(c) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code Section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the restrictions set forth in the Company's Stock Retention Program for Executives and any applicable clawback or recoupment policies and other policies that may be implemented by the Company’s Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (A) to be bound by the terms of the Plan and this Grant, (B) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (C) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee’s discretion, be

satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute “deferred compensation” under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: George MacKenzie

G. MacKenzie

Its: Chairman of the Board

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Section 6: EX-10.5 (EX-10.5)

Exhibit 10.5

AMERICAN WATER WORKS COMPANY, INC.
2007 OMNIBUS EQUITY COMPENSATION PLAN
STOCK UNIT GRANT

This STOCK UNIT GRANT, dated as of May 9, 2014 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan) has determined to grant each non-employee member of the Board of Directors of the Company (the "Board") who is a non-employee director of the Company immediately following the Company's 2014 Annual Stockholder meeting a stock unit grant that will be converted to shares of common stock of the Company, par value $0.01 per share, (the "Company Stock") at a later date;

WHEREAS, the Participant is a non-employee director on the Board; and

WHEREAS, the Committee has determined that the stock unit grant granted to the Participant shall be issued under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions of such stock unit shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ units (the "Stock Units"). Each Stock Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable distribution date, as described in Paragraph 4 below.

2. Stock Unit Account. The Company shall establish and maintain a Stock Unit account as a bookkeeping account on its records (the "Stock Unit Account") for the Participant and shall record in such Stock Unit Account the number of Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Stock Unit Account established for the Participant.

3. Vesting. The Participant shall be fully vested in the Stock Units credited to the Participant's Stock Unit Account pursuant to this Grant on the Date of Grant.

4. Distribution. The Stock Units shall be converted to shares of Company Stock and distributed by the Company within thirty (30) days following the earlier of (i) August 14, 2015__ (the "Specified Date") (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), (ii) the Participant's separation from service (within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code")) with the Company (the "Separation from Service Date"), or (iii) the date of a Change of Control (as defined below) (the "Change of Control Date"). At the time of distribution, all Stock Units shall be converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single sum distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of this Grant, the term "Change of Control" shall have the same meaning as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Code and its corresponding regulations.

5. Deferrals. The Participant may make an irrevocable election to defer the Specified Date (or further defer the Deferred Date (as defined

below), if applicable) of all of the Stock Units, plus dividend equivalents earned on such Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Specified Date cannot be earlier than five (5) years from the original Specified Date under Paragraph 4 (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Specified Date (or twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Specified Date, the Participant must elect to defer 100% of the Stock Units, including corresponding dividend equivalents, granted to the Participant under this Grant and complete the deferral election form provided to the Participant by the Committee, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Committee. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Separation from Service Date or Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant's Stock Units, plus corresponding dividend equivalents, will be made as a result of the occurrence of the Separation from Service Date or Change of Control Date, whichever is earlier. If a Specified Date is delayed one or more times pursuant to this Paragraph 5, the new Specified Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the earlier of the Specified Date (or the Deferred Date, if elected), Separation from Service Date or Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Stock Units credited to the Participant's Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Stock Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant a lump sum cash payment equal to the value of the dividends credited to the Participant's Dividend Equivalent Account. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Committee with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the distribution of the Stock Units shall be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the shares of Company Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Company Stock, the shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock upon conversion of the Stock Units, the Participant agrees:

(i) to be bound by the Company's policies regarding the limitations on the transfer of such shares, and understands that there may be certain times during the year that the Participant will be prohibited from selling, transferring, pledging, donating, assigning, mortgaging, hypothecating or otherwise encumbering the shares; and

(ii) that the shares of Company Stock obtained by the Participant upon the distribution of the Stock Units shall not be tradable until the Participant owns enough shares of Company Stock outright, as stock units convertible into shares of Company Stock, and time-based restricted Company Stock, to meet or exceed five (5) times the Participant's annual cash retainer, which ownership requirement must be satisfied by the later of February 2015, or the fifth (5th) anniversary of the Participant's commencement of service as a director on the Board.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Committee with respect to this Grant and the Plan.

11. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except as provided in Paragraph 6), or the right to vote, with respect to any Stock Units.

12. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer (as defined in the Plan) and shall not interfere in any way with the right to terminate the

Participant's employment or service at any time. The right to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Stock Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Stock Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. To the extent required by applicable law, the Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal, state, local or other taxes that the Company is required to withhold with respect to the Grant, vesting or distribution of the Stock Units and dividend equivalents.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the records of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) This Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Except according to a valid election made pursuant to Paragraph 5 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant are payable to the Participant upon separation from service (within the meaning of section 409A of the Code) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer. If the Participant dies during such six (6)-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: **Susan Story**

Its: President and CEO

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Section 7: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 6, 2014

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

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Section 8: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Linda G. Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
>
> b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

> a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2014

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 9: EX-32.1 (EX-32.1)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and exchange Commission on the date hereof (the "Report"), I, Susan N. Story, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

August 6, 2014

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Section 10: EX-32.2 (EX-32.2)

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and exchange Commission on the date hereof (the “Report”), I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

August 6, 2014

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AWK 10-Q 9/30/2014

Section 1: 10-Q (10-Q)

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 September 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

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

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

(856) 346-8200
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

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

Class	Outstanding at October 30, 2014

Common Stock, $0.01 par value per share	**179,309,045 shares**

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AMERICAN WATER WORKS COMPANY, INC.
REPORT ON FORM 10-Q
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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2014	December 31, 2013
ASSETS		
Property plant and equipment		
Utility plant—at original cost, net of accumulated depreciation of $4,010,604 at September 30 and $3,894,326 at December 31	$ 12,668,123	$ 12,244,359
Nonutility property, net of accumulated depreciation of $239,780 at September 30 and $215,083 at December 31	131,235	143,995
Total property, plant and equipment	12,799,358	12,388,354
Current assets		
Cash and cash equivalents	74,128	26,964
Restricted funds	20,040	28,505
Accounts receivable	284,273	241,926
Allowance for uncollectible accounts	(34,579)	(33,823)
Unbilled revenues	227,037	215,725
Income taxes receivable	9,608	5,778
Materials and supplies	37,203	32,973
Deferred income taxes	104,251	18,609
Assets of discontinued operations	6,256	7,761
Other	28,744	28,276
Total current assets	756,961	572,694
Regulatory and other long-term assets		
Regulatory assets	874,828	858,465
Restricted funds	17,243	754
Goodwill	1,208,065	1,207,764
Other	59,192	60,998
Total regulatory and other long-term assets	2,159,328	2,127,981
TOTAL ASSETS	$ 15,715,647	$ 15,089,029

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, 2014	December 31, 2013
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock ($0.01 par value, 500,000 shares authorized, 179,265 shares outstanding at September 30 and 178,379 at December 31)	$ 1,793	$ 1,784
Paid-in-capital	6,297,187	6,261,396
Accumulated deficit	(1,333,164)	(1,495,698)
Accumulated other comprehensive loss	(35,942)	(34,635)
Treasury stock	(10,222)	(5,043)
Total common stockholders' equity	4,919,652	4,727,804
Long-term debt		
Long-term debt	5,540,648	5,212,881
Redeemable preferred stock at redemption value	15,958	17,177
Total capitalization	10,476,258	9,957,862
Current liabilities		
Short-term debt	313,979	630,307
Current portion of long-term debt	55,581	14,174
Accounts payable	260,713	264,115
Taxes accrued	46,945	32,166
Interest accrued	97,062	52,087
Liabilities of discontinued operations	1,667	3,824
Other	282,988	238,860
Total current liabilities	1,058,935	1,235,533
Regulatory and other long-term liabilities		
Advances for construction	368,827	375,729
Deferred income taxes	2,118,499	1,841,584
Deferred investment tax credits	25,362	26,408
Regulatory liabilities	385,288	373,319
Accrued pension expense	90,026	108,542
Accrued postretirement benefit expense	88,338	88,419
Other	36,893	38,929
Total regulatory and other long-term liabilities	3,113,233	2,852,930
Contributions in aid of construction	1,067,221	1,042,704
Commitments and contingencies (See Note 10)	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$ 15,715,647	$ 15,089,029

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,	
	2014	**2013**	**2014**	**2013**
Operating revenues	$ 846,169	$ 822,190	$ 2,279,950	$ 2,172,694
Operating expenses				
Operation and maintenance	341,348	337,674	1,004,377	962,853
Depreciation and amortization	106,789	102,495	318,398	303,002
General taxes	60,807	58,087	178,276	175,789
(Gain) loss on asset dispositions and purchases	(60)	768	(616)	529
Total operating expenses, net	508,884	499,024	1,500,435	1,442,173
Operating income	337,285	323,166	779,515	730,521
Other income (expenses)				
Interest, net	(75,445)	(77,389)	(222,673)	(233,260)
Allowance for other funds used during construction	2,805	2,800	7,064	9,895
Allowance for borrowed funds used during construction	1,570	1,679	4,324	5,102
Amortization of debt expense	(1,669)	(1,524)	(4,971)	(4,729)
Other, net	(733)	(449)	(2,591)	(1,481)
Total other income (expenses)	(73,472)	(74,883)	(218,847)	(224,473)
Income from continuing operations before income taxes	263,813	248,283	560,668	506,048
Provision for income taxes	107,205	98,374	224,773	196,325
Income from continuing operations	156,608	149,909	335,895	309,723
Income (loss) from discontinued operations, net of tax	(4,423)	756	(6,288)	(152)
Net income	$ 152,185	$ 150,665	$ 329,607	$ 309,571
Other comprehensive income (loss), net of tax:				
Pension plan amortized to periodic benefit cost:				
Prior service cost, net of tax of $26 and $28 for the three months and $79 and $83 for the nine months, respectively	41	43	124	130
Actuarial loss, net of tax of $(4) and $1,424 for the three months and $(14) and $4,273 for the nine months, respectively	(7)	2,228	(22)	6,683
Foreign currency translation adjustment	(490)	296	(594)	(523)
Unrealized loss on cash flow hedge, net of tax of $(439) for the three and nine months	(815)	0	(815)	0
Other comprehensive income (loss)	(1,271)	2,567	(1,307)	6,290
Comprehensive income	$ 150,914	$ 153,232	$ 328,300	$ 315,861
Basic earnings per share: (a)				
Income from continuing operations	$ 0.87	$ 0.84	$ 1.88	$ 1.74
Income (loss) from discontinued operations, net of tax	$ (0.02)	$ 0.00	$ (0.04)	$ (0.00)
Basic earnings per share	$ 0.85	$ 0.85	$ 1.84	$ 1.74
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.87	$ 0.84	$ 1.87	$ 1.73
Income (loss) from discontinued operations, net of tax	$ (0.02)	$ 0.00	$ (0.03)	$ (0.00)
Diluted earnings per share	$ 0.85	$ 0.84	$ 1.83	$ 1.73
Average common shares outstanding during the period				
Basic	178,992	177,965	178,800	177,671
Diluted	179,948	179,154	179,723	178,906
Dividends declared per common share	$ 0.62	$ 0.56	$ 0.93	$ 0.84

(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,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 329,607	$ 309,571
Adjustments		
Depreciation and amortization	318,398	303,002
Provision for deferred income taxes	213,125	195,240
Amortization of deferred investment tax credits	(1,046)	(1,126)
Provision for losses on accounts receivable	26,087	18,331
Allowance for other funds used during construction	(7,064)	(9,895)
(Gain) loss on asset dispositions and purchases	(616)	529
Pension and non-pension postretirement benefits	18,056	58,552
Stock-based compensation expense	9,670	8,916
Other, net	(229)	(12,264)
Changes in assets and liabilities		
Receivables and unbilled revenues	(77,323)	(108,062)
Taxes receivable, including income taxes	(3,830)	(5,513)
Other current assets	(15,292)	(13,188)
Pension and non-pension postretirement benefit contributions	(35,783)	(77,664)
Accounts payable	(30,141)	(28,577)
Taxes accrued, including income taxes	14,779	10,064
Interest accrued	44,975	47,481
Change in book overdraft	(2,052)	(7,993)
Other current liabilities	39,581	1,145
Operating cash flows provided by continuing operations	840,902	688,549
Operating cash flows provided by (used in) discontinued operations, net	(640)	127
Net cash provided by operating activities	840,262	688,676
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(664,859)	(664,975)
Acquisitions	(6,053)	(16,554)
Proceeds from sale of assets	804	749
Removal costs from property, plant and equipment retirements, net	(51,959)	(49,639)
Net funds released	738	11,339
Investing cash flows used in continuing operations	(721,329)	(719,080)
Investing cash flows used in discontinued operations	(12)	(287)
Net cash used in investing activities	(721,341)	(719,367)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	500,497	2,737
Repayment of long-term debt	(136,739)	(13,149)
Proceeds from short-term borrowings with maturities greater than three months	35,000	20,000
Repayment of short-term borrowings with maturities greater than three months	(256,000)	0
Net short-term borrowings (repayments) with maturities less than three months	(95,328)	99,450
Proceeds from issuances of employee stock plans and DRIP	15,446	19,788
Advances and contributions for construction, net of refunds of $16,305 and $16,671 at September 30, 2014 and 2013, respectively	21,293	13,486
Debt issuance costs	(4,593)	(1,126)
Redemption of preferred stock	(1,200)	(2,920)
Dividends paid	(160,848)	(99,554)
Tax benefit realized from equity compensation	10,715	0
Net cash (used in) provided by financing activities	(71,757)	38,712
Net increase in cash and cash equivalents	47,164	8,021
Cash and cash equivalents at beginning of period	26,964	24,433
Cash and cash equivalents at end of period	$ 74,128	$ 32,454
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at end of period	$ 163,053	$ 119,807
Non-cash financing activity:		
Advances and contributions	$ 8,876	$ 9,379
Dividends accrued	$ 55,494	$ 49,837
Long-term debt issued	$ 9,977	$ 0
Long-term debt retired	$ (1,215)	$ 0

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 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	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	329,607	0	0	0	0	329,607
Direct stock reinvestment and purchase plan, net of expense of $22	34	0	1,568	0	0	0	0	0	1,568
Employee stock purchase plan	75	1	3,458	0	0	0	0	0	3,459
Stock-based compensation activity	777	8	30,765	(640)	0	(122)	(5,179)	0	24,954
Other comprehensive loss, net of tax of $(374)	0	0	0	0	(1,307)	0	0	0	(1,307)
Dividends	0	0	0	(166,433)	0	0	0	0	(166,433)
Balance at September 30, 2014	179,265	$ 1,793	$ 6,297,187	$ (1,333,164)	$ (35,942)	(254)	$(10,222)	$ 0	$ 4,919,652

	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	Total Stockholders' Equity
Balance at December 31, 2012	176,988	$ 1,770	$ 6,222,644	$ (1,664,955)	$ (116,191)	0	$ 0	$ 1,720	$ 4,444,988
Net income	0	0	0	309,571	0	0	0	0	309,571
Direct stock reinvestment and purchase plan, net of expense of $41	35	0	1,399	0	0	0	0	0	1,399
Employee stock purchase plan	81	1	3,270	0	0	0	0	0	3,271
Stock-based compensation activity	1,017	10	23,973	(416)	0	(132)	(5,043)	0	18,524
Subsidiary preferred stock redemption	0	0	0	0	0	0	0	(1,720)	(1,720)
Other comprehensive income, net of tax of $4,356	0	0	0	0	6,290	0	0	0	6,290
Dividends	0	0	0	(149,391)	0	0	0	0	(149,391)
Balance at September 30, 2013	178,121	$ 1,781	$ 6,251,286	$ (1,505,191)	$ (109,901)	(132)	$ (5,043)	$ 0	$ 4,632,932

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

Note 1: Basis of Presentation

The accompanying Consolidated Balance Sheet of American Water Works Company, Inc. and Subsidiary Companies (the “Company”) at September 30, 2014, the Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, and the Consolidated Statements of Changes in Stockholders’ Equity for the nine months ended September 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.

The accompanying Notes to the Consolidated Financial Statements relate to continuing operations only unless otherwise indicated. 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 was 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 was 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 issued 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 adoption of this updated guidance is not expected to have a material impact on 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 on a prospective basis for interim and annual periods beginning after January 1, 2015. In general, this guidance is likely to result in fewer disposals of assets qualifying as discontinued operations.

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.

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

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

Note 3: Acquisitions and Divestitures

Acquisitions

During the nine-month period ended September 30, 2014, the Company closed on nine acquisitions: five regulated water systems, one regulated wastewater, and three regulated water and wastewater systems. The aggregate purchase price of these acquisitions totaled $6,134. Assets acquired, principally plant, totaled $13,119. Liabilities assumed totaled $6,985, including contributions in aid of construction of $4,231 and debt of $1,683.

Divestitures

In the third quarter of 2014, the Company approved a plan to exit the Class B biosolids management business by selling Terratec Environmental Ltd (“Terratec”), and as a result, has included the results as discontinued operations for all periods presented. Terratec, which was previously included in the Market-Based Operations segment, is based in Canada and provides environmentally sustainable management and disposal of biosolids and wastewater by-products. The Company expects to complete the disposition during the fourth quarter of 2014.

Included in the loss on discontinued operations is an estimated loss on the disposal of Terratec in the amount of $3,470. The provision for income taxes for 2014 includes the utilization of $1,480 of tax attributes as a result of the expected sale. Charges recorded in connection with the discontinued operations include estimates that are subject to subsequent adjustment.

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,	
	2014	2013	2014	2013
Operating revenues	$ 4,910	$ 7,006	$ 12,234	$ 16,904
Total operating expenses, net	7,973	6,297	17,657	17,430
Income (loss) from discontinued operations before income taxes	(3,063)	709	(5,423)	(526)
Provision (benefit) for income taxes	1,360	(47)	865	(374)
Income (loss) from discontinued operations	$ (4,423)	$ 756	$ (6,288)	$ (152)

Assets and liabilities of discontinued operations in the accompanying Consolidated Balance Sheets include the following:

	September 30, 2014	December 31, 2013
ASSETS		
Total property, plant and equipment	$ 2,168	$ 2,808
Current assets	4,088	4,953
Total assets of discontinued operations	$ 6,256	$ 7,761
LIABILITIES		
Current liabilities	$ 1,667	$ 3,824
Total liabilities of discontinued operations	$ 1,667	$ 3,824

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, 2014.

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

	Regulated Unit		Market-Based Operations		Consolidated		
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Total Net
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 September 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
Goodwill from acquisitions	405	0	0	0	405	0	405
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

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 September 30, 2014, there were 4,621 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, 2014 and 2013:

	2014	2013
Shares of common stock issued	34	35
Cash proceeds received	$ 1,590	$ 1,440

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

	2014	2013
Dividends per share, three months ended:		
March 31	$ 0.28	$ 0.00
June 30	$ 0.31	$ 0.28
September 30	$ 0.31	$ 0.28
Total dividends paid, three months ended:		
March 31	$ 49,968	$ 0
June 30	$ 55,422	$ 49,744
September 30	$ 55,458	$ 49,810

On September 19, 2014, the Company declared a quarterly cash dividend of $0.31 per share, payable on December 1, 2014 to shareholders of record as of November 10, 2014. As of September 30, 2014, the Company had accrued dividends totaling $55,494 included in other current liabilities on the accompanying Consolidated Balance Sheet.

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, 2014 and 2013, respectively:

	Defined Benefit Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial (Gain) Loss	Foreign Currency Translation	Loss on Cash Flow Hedge	Total Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2014	$ (69,711)	$ 713	$ 31,150	$ 3,213	$ 0	$ (34,635)
Other comprehensive income (loss) before reclassifications	0	0	0	(594)	(825)	(1,419)
Amounts reclassified from accumulated other comprehensive income (loss)	0	124	(22)	0	10	112
Net comprehensive income (loss) for the period	0	124	(22)	(594)	(815)	(1,307)
Ending balance at September 30, 2014	$ (69,711)	$ 837	$ 31,128	$ 2,619	$ (815)	$ (35,942)
Beginning balance at January 1, 2013	$ (143,183)	$ 539	$ 22,239	$ 4,214	$ 0	$ (116,191)
Other comprehensive income (loss) before reclassifications	0	0	0	(523)	0	(523)
Amounts reclassified from accumulated other comprehensive income (loss)	0	130	6,683	0	0	6,813
Net comprehensive income (loss) for the period	0	130	6,683	(523)	0	6,290
Ending balance at September 30, 2013	$ (143,183)	$ 669	$ 28,922	$ 3,691	$ 0	$ (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)

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

Stock-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, 2014, a total of 8,832 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, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options	$ 632	$ 628	$ 1,989	$ 2,480
Restricted stock units	2,008	1,681	7,248	6,015
Employee stock purchase plan	148	145	433	421
Stock-based compensation in operation and maintenance expense	2,788	2,454	9,670	8,916
Income tax benefit	(1,087)	(957)	(3,771)	(3,477)
After-tax stock-based compensation expense	$ 1,701	$ 1,497	$ 5,899	$ 5,439

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

Stock Options

In the first nine 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 September 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 September 30, 2014, $2,241 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 1.2 years.

The table below summarizes stock option activity for the nine months ended September 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	(36)	39.29		
Exercised	(427)	25.36		
Options outstanding at September 30, 2014	2,083	$ 32.98	4.1	$ 31,773
Exercisable at September 30, 2014	1,243	$ 27.42	3.0	$ 25,862

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

	2014	2013
Intrinsic value	$ 8,775	$ 10,999
Exercise proceeds	10,831	15,499
Income tax benefit	2,634	3,138

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 was achieved, the restricted stock units would vest; if performance was surpassed, up to 175% of the target awards would be distributed; and if performance thresholds were not met, awards would be cancelled. In January 2014, an additional 113 restricted stock units were granted and distributed because performance thresholds were exceeded.

In the first nine 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 September 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 September 30, 2014, $6,940 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 1.0 years.

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

	Shares	Weighted-Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2014	539	$ 36.27
Granted	228	45.45
Performance share adjustment	113	30.34
Vested	(325)	31.77
Forfeited	(16)	41.24
Non-vested total at September 30, 2014	539	$ 41.47

The following table summarizes additional information regarding restricted stock units distributed during the nine months ended September 30, 2014 and 2013:

	2014	2013
Intrinsic value	$ 14,938	$ 13,983
Income tax benefit	1,592	2,049

If dividends are paid with respect to shares of the Company's common stock before the restricted stock units are distributed, the Company credits a liability for the value of the dividends that would have been paid if the restricted stock units were shares of Company common stock. When the restricted stock units are distributed, the Company pays the participant a lump sum cash payment equal to the value of the dividend equivalents accrued. The Company accrued dividend equivalents totaling $640 and $416 to retained earnings during the nine months ended September 30, 2014 and 2013, 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, 2014, there were 1,288 shares of common stock reserved for issuance under the ESPP. During the nine months ended September 30, 2014, the Company issued 75 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	September 30, 2014	December 31, 2013
Long-term debt of American Water Capital Corp. ("AWCC") (a)					
Private activity bonds and government funded debt					
Fixed rate	1.79%-6.25%	5.42%	2021-2040	$ 254,655	$ 330,732
Senior notes					
Fixed rate	3.40%-8.27%	5.44%	2016-2042	3,812,752	3,312,761
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate	0.00%-6.20%	4.67%	2015-2041	814,025	863,716
Mortgage bonds					
Fixed rate	4.29%-9.71%	7.41%	2015-2039	676,500	676,500
Mandatorily redeemable preferred stock	8.47%-9.75%	8.61%	2019-2036	17,702	18,902
Capital lease obligations	12.17%	12.17%	2026	893	913
Long-term debt				5,576,527	5,203,524
Unamortized debt, net (b)				32,133	35,984
Interest rate swap fair value adjustment				3,527	4,724
Total long-term debt				$ 5,612,187	$ 5,244,232

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

The Company issued the following long-term debt during 2014.

Company	Type	Rate	Maturity	Amount
American Water Capital Corp.	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$ 500,000
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$ 510,474

(1) Issuance includes $9,977 which was initially kept in trust pending the Company's certification that it has incurred qualifying capital expenditures. This amount has been presented as non-cash in the accompanying Consolidated Statements of Cash Flows.

The Company also assumed debt of $1,683 related to an acquisition in the second quarter of 2014.

The following long-term debt was retired through sinking fund payments and maturities during 2014:

Company	Type	Rate	Maturity	Amount
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2014-2031	$ 77,760
American Water Capital Corp.	Senior notes—fixed rate	6.00%	2039	9
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	60,165
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments			20
Total retirements and redemptions				$ 139,154

(1) Includes $1,215 of non-cash defeasance via the use of restricted funds

Interest income included in interest, net is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income	$ 3,527	$ 2,935	$ 9,030	$ 8,615

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, 2014	December 31, 2013
Regulatory and other long-term assets		
Other	$ 3,515	$ 4,776
Long-term debt		
Long-term debt	3,527	4,724

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	2014	2013	2014	2013
Interest, net				
Gain (loss) on swap	$ (1,058)	$ 385	$ (1,261)	$ (2,670)
Gain (loss) on borrowing	945	(247)	1,198	2,434
Hedge ineffectiveness	(113)	138	(63)	(236)

Note 7: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling $313,979 (net of discount of $21) at September 30, 2014 and $630,307 (net of discount of $193) at December 31, 2013. During the first nine months of 2014, the Company borrowed $35,000 with maturities greater than three months, and repaid $35,000 and $221,000 borrowed in 2014 and 2013, respectively, with maturities greater than three months.

Note 8: Income Taxes

The Company's estimated annual effective tax rate was 39.7% for the nine months ended September 30, 2014 and September 30, 2013, excluding various discrete items.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Actual effective tax rate	40.6%	39.6%	40.1%	38.8%

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

Current deferred tax assets increased in 2014 due to the expected utilization of certain tax attributes within the next 12 months.

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,	
	2014	2013	2014	2013
Components of net periodic pension benefit cost				
Service cost	$ 7,943	$ 9,468	$ 23,830	$ 28,404
Interest cost	19,163	17,024	57,489	51,072
Expected return on plan assets	(23,709)	(22,108)	(71,128)	(66,322)
Amortization of:				
Prior service cost (credit)	181	181	543	543
Actuarial (gain) loss	(33)	9,293	(98)	27,878
Net periodic pension benefit cost	$ 3,545	$ 13,858	$ 10,636	$ 41,575
Components of net periodic other postretirement benefit cost				
Service cost	$ 2,764	$ 3,820	$ 8,293	$ 11,461
Interest cost	7,152	7,175	21,454	21,525
Expected return on plan assets	(6,875)	(7,571)	(20,625)	(22,713)
Amortization of:				
Prior service cost (credit)	(548)	(548)	(1,642)	(1,642)
Actuarial (gain) loss	(20)	2,782	(60)	8,346
Net periodic other postretirement benefit cost	$ 2,473	$ 5,658	$ 7,420	$ 16,977

The Company contributed $26,680 to its defined benefit pension plans in the first nine months of 2014 and expects to contribute $10,785 during the balance of 2014. In addition, the Company contributed $9,103 for the funding of its other postretirement plans in the first nine months of 2014 and expects to contribute $3,034 during the balance of 2014.

Note 10: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At September 30, 2014, the Company has accrued approximately $3,200 as probable costs and it is reasonably possible that additional losses could range up to $31,100 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements recovered by plaintiffs in such claims or actions, if any, will not have a material adverse effect on the Company’s results of operations, financial position or cash flows, individually or in the aggregate.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company’s military services agreements expire between 2051 and 2064 and have remaining performance commitments as measured by estimated remaining contract revenue of $2,580,231 at September 30, 2014. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company’s Operations and Maintenance agreements with municipalities and other customers expire between 2015 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of $882,176 at September 30, 2014. Some of the Company’s long-term contracts to operate and maintain a municipality’s, federal government’s or other party’s water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

On October 13, 2014, the Company and the Utility Workers Union of America AFL-CIO entered into a settlement agreement designed to resolve a dispute between the Company and most of the labor unions which represent employees in the Regulated Businesses (the “Unions’) regarding the Company’s national benefit agreements. Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, the Company agreed to make a $10 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of the Company’s last, best and final offer effective January 1, 2011. The majority of the distributions are expected to be used to reimburse employees for medical claims which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates - Active Employees VEBA (the “VEBA Trust”), to which the Company previously has made contributions. Therefore, amounts funded out of the VEBA Trust will not have an impact on our results of operations. The Unions approved the settlement agreement on October 30, 2014 and National Labor Relations Board (the “NLRB”) approved the settlement agreement on October 31, 2014. The NLRB advised the Company that it will dismiss its petition for enforcement filed in the United States Court of Appeals for the Seventh Circuit and close the case after the Company has substantially complied with its obligations under the settlement agreement to make the lump sum payment and to post a notice to empolyees agreeable to the Company and acceptable to the NLRB.

Note 11: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $2,200 and $3,300 at September 30, 2014 and December 31, 2013, respectively. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration ("NOAA") requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay $1,100 annually from 2010 through 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at September 30, 2014 and December 31, 2013 include $7,791 and $8,027, respectively, related to the NOAA agreement.

Note 12: Earnings per Common Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic	**2014**	**2013**	**2014**	**2013**
Income from continuing operations	$ 156,608	$ 149,909	$ 335,895	$ 309,723
Income (loss) from discontinued operations, net of tax	(4,423)	756	(6,288)	(152)
Net income	152,185	150,665	329,607	309,571
Less: Distributed earnings to common shareholders	55,664	50,007	161,439	99,929
Less: Distributed earnings to participating securities	17	19	49	41
Undistributed earnings	96,504	100,639	168,119	209,601
Undistributed earnings allocated to common shareholders	96,478	100,598	168,070	209,520
Undistributed earnings allocated to participating securities	26	41	49	81
Total income from continuing operations available to common shareholders, basic	$ 156,565	$ 149,849	$ 335,797	$ 309,601
Total income available to common shareholders, basic	$ 152,142	$ 150,605	$ 329,509	$ 309,449
Weighted-average common shares outstanding, basic	178,992	177,965	178,800	177,671
Basic earnings per share: (a)				
Income from continuing operations	$ 0.87	$ 0.84	$ 1.88	$ 1.74
Income (loss) from discontinued operations, net of tax	$ (0.02)	$ 0.00	$ (0.04)	$ (0.00)
Net income	$ 0.85	$ 0.85	$ 1.84	$ 1.74

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Diluted	**2014**	**2013**	**2014**	**2013**
Total income from continuing operations available to common shareholders, basic	$ 156,565	$ 149,849	$ 335,797	$ 309,601
Income (loss) from discontinued operations, net of tax	(4,423)	756	(6,288)	(152)
Total income available to common shareholders, basic	152,142	150,605	329,509	309,449
Undistributed earnings for participating securities	26	41	49	81
Total income from continuing operations available to common shareholders, diluted	$ 156,591	$ 149,890	$ 335,846	$ 309,682
Total income available to common shareholders, diluted	$ 152,168	$ 150,646	$ 329,558	$ 309,530
Weighted-average common shares outstanding, basic	178,992	177,965	178,800	177,671
Common stock equivalents:				
Restricted stock units	497	502	460	473
Stock options	458	685	462	760
Employee stock purchase plan	1	2	1	2
Weighted-average common shares outstanding, diluted	179,948	179,154	179,723	178,906
Diluted earnings per share (a)				
Income from continuing operations	$ 0.87	$ 0.84	$ 1.87	$ 1.73
Income (loss) from discontinued operations, net of tax	$ (0.02)	$ 0.00	$ (0.03)	$ (0.00)
Net income	$ 0.85	$ 0.84	$ 1.83	$ 1.73

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Stock options	49	330	334	330
Restricted stock units where certain performance conditions were not met	53	88	53	89

Note 13: Fair Value of Assets and Liabilities

Fair Value of Financial Instruments

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

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

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments are as follows:

		At Fair Value as of September 30, 2014			
Recurring Fair Value Measures	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 17,608	$ 0	$ 0	$ 22,255	$ 22,255
Long-term debt (excluding capital lease obligations)	5,611,294	2,901,707	1,479,866	2,096,293	6,477,866

		At Fair Value as of December 31, 2013			
Recurring Fair Value Measures	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Preferred stock with mandatory redemption requirements	$ 18,827	$ 0	$ 0	$ 22,795	$ 22,795
Long-term debt (excluding capital lease obligations)	5,224,492	2,263,355	1,462,404	2,057,506	5,783,265

Included in the long-term debt carrying amount above is a fair value adjustment related to the Company's interest rate swap fair value hedge, which is classified as Level 2 within the fair value hierarchy.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of September 30, 2014 and December 31, 2013, respectively:

	At Fair Value as of September 30, 2014			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Restricted funds	$ 37,283	$ 0	$ 0	$ 37,283
Rabbi trust investments	0	666	0	666
Deposits	1,318	0	0	1,318
Mark-to-market derivative asset	0	3,515	0	3,515
Total assets	38,601	4,181	0	42,782
Liabilities				
Deferred compensation obligation	0	11,548	0	11,548
Mark-to-market derivative liability	0	1,068	0	1,068
Total liabilities	0	12,616	0	12,616
Total net assets (liabilities)	$ 38,601	$ (8,435)	$ 0	$ 30,166

	At Fair Value as of December 31, 2013			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Restricted funds	$ 29,259	$ 0	$ 0	$ 29,259
Rabbi trust investments	0	444	0	444
Deposits	1,901	0	0	1,901
Mark-to-market derivative asset	0	4,776	0	4,776
Total assets	31,160	5,220	0	36,380
Liabilities				
Deferred compensation obligation	0	11,928	0	11,928
Mark-to-market derivative liability	0	1,276	0	1,276
Total liabilities	0	13,204	0	13,204
Total net assets (liabilities)	$ 31,160	$ (7,984)	$ 0	$ 23,176

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred.

Rabbi trust investments—The Company's rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative asset and liability—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps, classified as economic hedges, in order to fix the interest cost on some of its variable-rate debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Note 14: Segment Information

The Company has two operating segments that are also the Company's two reportable segments, referred to as Regulated Businesses and Market-Based Operations. The following table includes the Company's summarized segment information:

As of or for the Three Months Ended September 30, 2014

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 753,701	$ 96,980	$ (4,512)	$ 846,169
Depreciation and amortization	99,120	1,447	6,222	106,789
Total operating expenses, net	434,912	79,915	(5,943)	508,884
Income from continuing operations before income taxes	258,539	17,634	(12,360)	263,813
Total assets	14,161,472	309,935	1,244,240	15,715,647
Assets of discontinued operations (included in total assets above)	0	6,256	0	6,256
Capital expenditures	261,241	1,849	0	263,090
Capital expenditures of discontinued operations (included in above)	0	0	0	0

As of or for the Three Months Ended September 30, 2013

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 743,091	$ 83,558	$ (4,459)	$ 822,190
Depreciation and amortization	94,619	1,483	6,393	102,495
Total operating expenses, net	442,231	62,957	(6,164)	499,024
Income from continuing operations before income taxes	240,977	21,457	(14,151)	248,283
Total assets	13,362,265	282,744	1,601,727	15,246,736
Assets of discontinued operations (included in total assets above)	0	8,485	0	8,485
Capital expenditures	233,756	1,676	0	235,432
Capital expenditures of discontinued operations (included in above)	0	108	0	108

	As of or for the Nine Months Ended September 30, 2014			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 2,039,446	$ 253,857	$ (13,353)	$ 2,279,950
Depreciation and amortization	296,084	4,354	17,960	318,398
Total operating expenses, net	1,302,298	212,075	(13,938)	1,500,435
Income from continuing operations before income taxes	555,985	43,593	(38,910)	560,668
Total assets	14,161,472	309,935	1,244,240	15,715,647
Assets of discontinued operations (included in total assets above)	0	6,256	0	6,256
Capital expenditures	660,805	4,066	0	664,871
Capital expenditures of discontinued operations (included in above)	0	12	0	12

	As of or for the Nine Months Ended September 30, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	$ 1,964,225	$ 221,751	$ (13,282)	$ 2,172,694
Depreciation and amortization	279,949	4,487	18,566	303,002
Total operating expenses, net	1,277,264	181,526	(16,617)	1,442,173
Income from continuing operations before income taxes	509,765	42,570	(46,287)	506,048
Total assets	13,362,265	282,744	1,601,727	15,246,736
Assets of discontinued operations (included in total assets above)	0	8,485	0	8,485
Capital expenditures	661,112	4,150	0	665,262
Capital expenditures of discontinued operations (included in above)	0	287	0	287

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as “may,” “should,” “will,” “could,” “estimates,” “predicts,” “potential,” “continue,” “anticipates,” “believes,” “plans,” “expects,” “future” and “intends” and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the “Risk Factors” section or other sections in the Company’s annual report on Form 10-K (“Form 10-K”) for the year ended December 31, 2013 filed with the Securities and Exchange Commission (“SEC”). We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. (herein referred to as “American Water” or the “Company”) is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies (“PUCs”) in the states in which they operate. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by the PUCs. We report the results of these businesses in our Market-Based Operations segment. For further description of our businesses see Item 1, “Business,” in our Form 10-K for the year ended December 31, 2013.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K for the year ended December 31, 2013.

Overview

Financial Results. For the three months ended September 30, 2014, we reported net income of $152.2 million, or diluted earnings per share (“EPS”) of $0.85, compared to $150.7 million, or diluted EPS of $0.84, for the comparable period in 2013. Income from continuing operations was $156.6 million, or $0.87 per diluted share for the third quarter of 2014 compared to $149.9 million, or $0.84 per diluted share for the third quarter of 2013.

For the nine months ended September 30, 2014, we reported net income of $329.6 million, or diluted EPS of $1.83 compared to $309.6 million, or diluted EPS of $1.73, for the comparable period in 2013. Income from continuing operations was $335.9 million, or $1.87 per diluted share for the nine months ended September 30, 2014 compared to $309.7 million, or $1.73 per diluted share for the nine months ended September 30, 2013.

The increase in income from continuing operations for the three months ended September 30, 2014 compared to the same period in 2013 was due to favorable operating results from our Regulated Business segment due to higher revenues and lower operating expenses, partially offset by milder weather in the third quarter of 2014 compared to last year and the 2013 impact of retroactive price redeterminations for one of our military contracts in the Market-Based Operations. The increase in income from continuing operations for the nine months ended September 30, 2014 compared to the same period in 2013 was the result of favorable operating results from our Regulated Business segment reflecting higher revenue and lower operations and maintenance (“O&M”) expenses partially offset by higher depreciation expenses and higher costs resulting from the Freedom Industries chemical spill in West Virginia. Also contributing to the overall increase in income from continuing operations was lower interest expense for the both the three and nine month periods ended September 30, 2014 compared to the same periods in the prior year.

During the third quarter of 2014, management was involved in discussions to sell our Terratec line of business, which is part of our Market-Based Operations segment. The sale is expected to close in the fourth quarter of 2014. The financial results of this entity have been reflected as discontinued operations for all periods presented. All financial information in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) reflects continuing operations, unless otherwise noted.

For 2014, our goals include actively addressing regulatory lag and promoting constructive regulatory frameworks, continuing to improve our regulated operation and maintenance ("O&M") efficiency ratio, making efficient use of our capital and expanding both our Regulated Businesses segment through focused acquisitions and/or organic growth and our Market-Based Operations segment through core growth, expanding markets and new offerings. In addition, we will continue to focus on our customer service by achieving established customer satisfaction and service quality targets. Regarding environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage. The progress that we have made in the nine months of 2014 with respect to certain of these objectives is described below.

Promoting Constructive Regulatory Frameworks. On July 1, 2014, annualized revenues of $7.4 million resulting from infrastructure charges in our New Jersey subsidiary became effective.

In July 2014, a settlement with the Office of Ratepayer Advocates and other interveners was reached in our general rate case in California. The settlement, if approved, would provide $13.6 million in additional annualized revenues for 2015. The settlement also provides for escalation and attrition adjustments in 2016 and 2017 of $5.0 million and $6.3 million, respectively. The agreement is pending regulatory approval and is subject to change.

On September 2, 2014, our Missouri subsidiary filed for additional annualized revenues from infrastructure charges in the amount of $8.5 million.

The table below provides further details of annualized revenues, assuming a constant volume, resulting from rate authorizations granted in 2014:

	Annualized Rate Increases Granted	
	For the three months ended September 30, 2014	For the nine months ended September 30, 2014
	(In millions)	
State		
General Rate Cases		
New York	$ —	$ 1.2
Iowa	—	3.8
Total General Rate cases	$ —	$ 5.0
Infrastructure charges		
New York	$ —	$ 1.8
New Jersey	7.4	17.5
Missouri	—	3.7
Illinois	—	2.1
Tennessee	—	0.5
Total Infrastructure charges	$ 7.4	$ 25.6

On October 29, 2014, our Tennessee subsidiary filed for additional annualized revenue from infrastructure charges in the amount of $2.6 million.

As of October 31, 2014, we are awaiting final orders for general rate cases in Indiana and California, requesting additional annualized revenue of approximately $44.5 million, adjusted for the potential California settlement discussed above. There is no assurance that all or any portion, of these requests will be granted.

On October 22, 2014, the New Jersey Board of Public Utilities issued an order on the Consolidated Tax Adjustment ("CTA") in New Jersey. Historically, the CTA allocated a portion of our consolidated losses since 1991 as a reduction to utility rate base. The order reaffirmed the continued use of a CTA as a deduction to utility rate base; however, it approved changes in methodology, two of which are significant for our New Jersey subsidiary. First, the "look-back" period was limited to the most recent five calendar years rather than to 1991. Second, the consolidated losses will be allocated 25% to customers and 75% to the company rather than customers receiving 100% allocation. The Order is subject to a 45 day appeal period.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses. Our O&M efficiency ratio (a non-GAAP measure) is calculated on our Regulated Businesses' operations and is defined as operation and maintenance expense divided by operating revenues where both O&M and operating revenues are adjusted to eliminate the impact of purchased water. We also exclude the allocable portion of non-O&M support services costs, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the

Statement of Operations. Our O&M efficiency ratio was 32.6% for the three months ended September 30, 2014, compared to 35.3% for the three months ended September 30, 2013. Our O&M efficiency ratio was 36.9% for the nine months ended September 30, 2014, compared to 38.5% for the nine months ended September 30, 2013. The improvement in our 2014 O&M efficiency ratio for the three months ended September 30, 2014 was primarily attributable to an increase in Regulated Businesses' revenue and a decrease in our Regulated Businesses O&M compared to the same period in 2013. For the nine months ended September 30, 2014, the improvement was primarily attributable to the increase in our Regulated Businesses' revenue compared to the same period in 2013.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses' operations. This information is intended to enhance an investor's overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies' operating measures and should not be used in place of the GAAP information provided elsewhere in this report. The following table provides a reconciliation that compares O&M and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our O&M efficiency ratio for the three and nine months ended September 30, 2014 as compared to the same periods in 2013:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure):

	For the three months ended September 30,		**For the nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
	(In thousands)			
Total O&M	$ 341,348	$ 337,674	$ 1,004,377	$ 962,853
Less:				
O&M—Market-Based Operations	77,401	59,682	204,460	172,684
O&M—Other	(14,329)	(14,618)	(40,307)	(43,674)
Total Regulated O&M	278,276	292,610	840,224	833,843
Less:				
Regulated purchased water expense	33,674	33,956	93,332	84,759
Allocation of internal O&M	9,936	7,988	29,472	26,132
Adjusted Regulated O&M (a)	$ 234,666	$ 250,666	$ 717,420	$ 722,952
Total Operating Revenues	$ 846,169	$ 822,190	$ 2,279,950	$ 2,172,694
Less:				
Operating revenues—Market-Based Operations	96,980	83,558	253,857	221,751
Operating revenues—Other	(4,512)	(4,459)	(13,353)	(13,282)
Total Regulated operating revenues	753,701	743,091	2,039,446	1,964,225
Less: Regulated purchased water expense*	33,674	33,956	93,332	84,759
Adjusted Regulated operating revenues (b)	$ 720,027	$ 709,135	$ 1,946,114	$ 1,879,466
Regulated O&M efficiency ratio (a)/(b)	32.6%	35.3%	36.9%	38.5%

* Calculation assumes purchased water revenues are equal to purchased water expenses.

Making Efficient Use of Capital. We made capital investments of approximately $313.7 million and $701.6 million during the three months and nine months ended September 30, 2014, respectively. Of this total year-to-date investment, approximately $695.4 million was for Company-funded capital improvements with the remaining $6.2 million for the acquisition of regulated water and/or wastewater systems. For the full-year of 2014, we estimate our total capital plan to be $1.0 billion, most of which will be allocated to upgrading our infrastructure and systems and we estimate up to an additional $15 million for acquisitions and strategic investment purposes.

Expanding Markets and Developing New Offerings. During the nine months ended September 30, 2014, our Regulated Businesses completed the purchase of five regulated water systems, one regulated wastewater system and three regulated water and wastewater systems. These acquisitions added approximately 2,100 water customers and 1,600 wastewater customers to our regulated operations. Also, as previously announced, in January 2014, our Military Services Group within our Market-Based Operations segment was awarded a contract for ownership, operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. In August 2014, our Military Services Group was awarded a contract for ownership, operation and maintenance of the water and wastewater systems at Picatinny Arsenal in New Jersey. Additionally, during the nine months ended September 30, 2014, our Homeowner Services Group ("HOS") expanded its water and sewer line protection programs into Arkansas, Louisiana, Maine, Minnesota, New Hampshire, Oklahoma, Vermont and Wyoming.

Other Matters.

West Virginia Freedom Industries Chemical Spill. As noted in the Form 10-K for the year ended December 31, 2013, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked 4-methylcyclohexane methanol, or MCHM, and PPH/DiPHH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant in Charleston, West Virginia. As a result of this event, income before income taxes was reduced by $0.5 million and $11.4 million for the three and nine months ended September 30, 2014, respectively.

See Part II, Item 1, "Legal Proceedings" in this report for information regarding litigation and an investigation by the Public Service Commission of West Virginia relating to the Freedom Industries chemical spill. The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries chemical spill, and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliates intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

Labor Dispute Regarding National Benefits Agreement. The Company's Form 10-Q for the quarter ended June 30, 2014 describes a dispute between the Company and most of the labor unions representing employees in the Regulated Businesses (the "Unions") regarding the Company's national benefits agreement. On October 13, 2014, the Company and the Utility Workers Union of America AFL-CIO entered into a settlement agreement designed to resolve the dispute between the Company and the Unions. Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, the Company agreed to make a $10 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of the Company's last, best and final offer effective January 1, 2011. The majority of the distributions are expected to be used to reimburse employees for medical claims arising during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates - Active Employees VEBA (the "VEBA Trust"), to which the Company previously has made contributions. Therefore, amounts funded out of the VEBA Trust will not have an impact on earnings. The Unions approved the settlement agreement on October 30, 2014 and the National Labor Relations Board (the "NLRB") approved the settlement agreement on October 31, 2014. The NLRB advised the Company that it will dismiss its petition for enforcement filed in the United States Court of Appeals for the Seventh Circuit and close the case after the Company has substantially complied with its obligations under the settlement agreement to make the lump sum payment and to post a notice to employees agreeable to the Company and acceptable to the NLRB.

Consolidated Results of Operations and Changes from Prior Periods

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Favorable (Unfavorable) Change	2014	2013	Favorable (Unfavorable) Change
	(Dollars in thousands, except per share amounts)					
Operating revenues	$ 846,169	$ 822,190	$ 23,979	$ 2,279,950	$ 2,172,694	$ 107,256
Operating expenses						
Operation and maintenance	341,348	337,674	(3,674)	1,004,377	962,853	(41,524)
Depreciation and amortization	106,789	102,495	(4,294)	318,398	303,002	(15,396)
General taxes	60,807	58,087	(2,720)	178,276	175,789	(2,487)
(Gain) loss on asset dispositions and purchases	(60)	768	828	(616)	529	1,145
Total operating expenses, net	508,884	499,024	9,860	1,500,435	1,442,173	58,262
Operating income	337,285	323,166	14,119	779,515	730,521	48,994
Other income (expenses)						
Interest, net	(75,445)	(77,389)	1,944	(222,673)	(233,260)	10,587
Allowance for other funds used during construction	2,805	2,800	5	7,064	9,895	(2,831)
Allowance for borrowed funds used during construction	1,570	1,679	(109)	4,324	5,102	(778)
Amortization of debt expense	(1,669)	(1,524)	(145)	(4,971)	(4,729)	(242)
Other, net	(733)	(449)	(284)	(2,591)	(1,481)	(1,110)
Total other income (expenses)	(73,472)	(74,883)	1,411	(218,847)	(224,473)	5,626
Income from continuing operations before income taxes	263,813	248,283	15,530	560,668	506,048	54,620
Provision for income taxes	107,205	98,374	(8,831)	224,773	196,325	(28,448)
Income from continuing operations	156,608	149,909	6,699	335,895	309,723	26,172
Loss from discontinued operations, net of tax	(4,423)	756	(5,179)	(6,288)	(152)	(6,136)
Net income	$ 152,185	$ 150,665	$ 1,520	$ 329,607	$ 309,571	$ 20,036
Basic earnings per share: (a)						
Income from continuing operations	$ 0.87	$ 0.84		$ 1.88	$ 1.74	
Loss from discontinued operations, net of tax	$ (0.02)	$ 0.00		$ (0.04)	$ (0.00)	
Basic earnings per share	$ 0.85	$ 0.85		$ 1.84	$ 1.74	
Diluted earnings per share: (a)						
Income from continuing operations	$ 0.87	$ 0.84		$ 1.87	$ 1.73	
Loss from discontinued operations, net of tax	$ (0.02)	$ 0.00		$ (0.03)	$ (0.00)	
Diluted earnings per share	$ 0.85	$ 0.84		$ 1.83	$ 1.73	
Average common shares outstanding during the period:						
Basic	178,992	177,965		178,800	177,671	
Diluted	179,948	179,154		179,723	178,906	

(a) Amounts may not sum due to rounding

The following is a discussion of the consolidated results of operations for the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013:

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Operating revenues. Consolidated operating revenues for the quarter increased $24.0 million, or 2.9%, compared to the same quarter last year. The increase is the result of higher revenues in our Regulated Businesses segment of $10.6 million, which is mainly attributable to rate increases, incremental revenues from surcharges, balancing accounts and acquisitions, partially offset by reduced consumption in 2014 compared to 2013, which we believe is the result of cooler and wetter weather conditions in 2014. Also, contributing to the higher revenues was a $13.4 million increase in our Market-Based Operations segment primarily due to incremental revenue from our military contracts as a result of increased construction type projects at Fort Polk as well as contract growth in our HOS. For further information, see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated O&M increased by $3.7 million, or 1.1%, compared to the same period in 2013. The increase is primarily due to higher O&M costs in our Market-Based Operations segment of $17.7 million, principally due to increased activity under our military contracts, corresponding with the increased revenue. This increase was largely offset by a $14.3 million decrease in O&M costs for our Regulated Businesses segment primarily due to lower production costs and lower employee-related costs. For further discussions on the changes in our Regulated and Market-Based segments’ O&M, see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $4.3 million, or 4.2%, principally as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that went into service during the second and fourth quarters of 2013.

General Taxes: General taxes increased $2.7 million or 4.7% due to higher property tax assessments in Pennsylvania and Kentucky.

Other income (expenses). Other expenses decreased by $1.4 million, or 1.9%, compared to the same period in the prior year. The change is primarily due to a reduction in interest expense resulting from interest savings as a result of our 2013 refinancings.

Provision for income taxes. Our consolidated provision for income taxes increased $8.8 million, or 9.0%, to $107.2 million for the three months ended September 30, 2014. The effective tax rates for the three months ended September 30, 2014 and 2013 were 40.6% and 39.6%, respectively. Included in the three months ended September 30, 2014 were $2.1 million of discrete tax items associated with uncertain tax positions.

Loss from discontinued operations, net of tax. As noted above, the financial results of our Terratec line of business within our Market-Based segment has been classified as discontinued operations for all periods presented. The increase in loss from discontinued operations, net of tax is primarily related to costs associated with the pending sale and an income tax valuation allowance and lower operating result for the quarter.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Operating revenues. Consolidated operating revenues increased $107.3 million, or 4.9%. The increase is the result of higher revenues in our Regulated Businesses segment of $75.2 million, mainly attributable to rate increases, incremental revenues from surcharges and balancing accounts, partially offset by reduced consumption in 2014, mainly due to the cooler and wetter weather in 2014 compared to 2013. Also contributing to the higher revenues was a $32.1 million increase in our Market-Based Operations segment primarily due to incremental revenue from our military contracts as a result of increased construction type projects, with the largest increases at Forts Polk and Leavenworth, and contract growth in our HOS. For further information, see the respective “Operating Revenues” discussions within the “Segment Results.”

Operation and maintenance. Consolidated O&M increased by $41.5 million, or 4.3%. The increase is primarily due to higher O&M costs in our Regulated Businesses segment of $6.4 million, principally due to increased production costs, uncollectible expense, maintenance expense and costs associated with the Freedom Industries chemical spill in West Virginia, partially offset by lower employee-related costs. The increase in our Market-Based Operations segment of $31.8 million was mainly from incremental costs related to increased activity under our military contracts, corresponding with the increased revenue. For further discussions on the changes in our Regulated Businesses and Market-Based Operations segments’ O&M, see the respective “Operation and Maintenance” discussions within the “Segment Results.”

Depreciation and amortization. Depreciation and amortization expense increased by $15.4 million, or 5.1%, principally as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that were placed into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $5.6 million, or 2.5% . The change is primarily due to a reduction in interest expense resulting from interest savings as a result of our 2013 refinancings, offset by a reduction in AFUDC which is mainly attributable to our Customer Information and Enterprise Asset Management systems being placed into service in the second and fourth quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $28.4 million, or 14.5%. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 40.1% and 38.8%, respectively. Included in the nine months ended September 30, 2014 were $2.0 million of discrete tax items associated with uncertain tax positions. The 2013 rate included a $3.3 million tax benefit associated with a legal structure reorganization in our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards prior to their expiration.

Loss from discontinued operations, net of tax. As noted above, the financial results of our Terratec line of business within our Market-Based segment has been classified as discontinued operations for all periods presented. The increase in loss from discontinued operations, net of tax is primarily related to costs associated with the pending sale and an income tax valuation allowance and lower operating results.

Segment Results

We have two operating segments that are also our reportable segments: the Regulated Businesses and the Market-Based Operations. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the three months ended September 30,			For the nine months ended September 30,		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
			(In thousands)			
Operating revenues	$ 753,701	$ 743,091	$ 10,610	$ 2,039,446	$ 1,964,225	$ 75,221
Operation and maintenance expense	278,276	292,610	(14,334)	840,224	833,843	6,381
Operating expenses, net	434,912	442,231	(7,319)	1,302,298	1,277,264	25,034
Income from continuing operations before income taxes	258,539	240,977	17,562	555,985	509,765	46,220

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business generally is subject to PUC economic regulation, and our results of operations are impacted significantly by rates authorized by the PUCs in the states in which we operate.

Operating revenues increased by $10.6 million, or 1.4%, for the quarter ended September 30, 2014, as compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $23.0 million of rate increases resulting from rate authorizations for a number of our operating companies. Additionally, revenue increased by $1.8 million due to increased surcharges and balancing accounts and approximately $3.7 million of incremental revenues attributable to acquisitions. The most significant contributor to the increase in revenues from acquisitions was Dale Service Corporation (“Dale”), which was acquired by our Virginia subsidiary in the fourth quarter of 2013. Partially offsetting these increases was a decrease in revenues of approximately $18.7 million as a result of lower demand, of which a large portion is believed to be the result of cooler and wetter weather this year compared to last year.

Operating revenues increased by $75.2 million, or 3.8%, for the nine months ended September 30, 2014, as compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $63.7 million attributable to rate increases from rate authorizations for a number of our operating companies partially offset by a reduction in consumption levels of approximately $11.5 million. As previously mentioned, we believe a large portion of this consumption decrease is the result of cooler and wetter weather this year compared to last year. Additionally, revenue increased by $10.2 million due to increased surcharges and balancing accounts and approximately $10.5 million as a result of 2013 acquisitions. The most significant contributor to the increase in revenues from acquisitions was Dale.

The following table provides information regarding the Regulated Businesses' for the periods indicated:

	For the three months ended September 30,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$ 431,906	$ 420,307	$ 11,599	2.8%	53,523	55,905	(2,382)	(4.3%)
Commercial	155,761	152,640	3,121	2.0%	23,758	24,789	(1,031)	(4.2%)
Industrial	35,349	33,026	2,323	7.0%	10,405	10,081	324	3.2%
Public and other	87,868	87,510	358	0.4%	15,045	15,531	(486)	(3.1%)
Other water revenues	12,458	7,201	5,257	73.0%	—	—	—	—
Billed water services	723,342	700,684	22,658	3.2%	102,731	106,306	(3,575)	(3.4%)
Unbilled water services	(6,012)	9,384	(15,396)	(164.1%)				
Total water service revenues	717,330	710,068	7,262	1.0%				
Wastewater service revenues	23,059	20,720	2,339	11.3%				
Other revenues	13,312	12,303	1,009	8.2%				
	$ 753,701	$ 743,091	$ 10,610	1.4%				

	For the nine months ended September 30,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (dollars in thousands)				Billed Water Sales Volume (gallons in millions)			
Customer Class								
Water service								
Residential	$1,150,336	$1,100,767	$ 49,569	4.5%	135,165	136,356	(1,191)	(0.9%)
Commercial	416,197	395,622	20,575	5.2%	61,839	61,129	710	1.2%
Industrial	100,337	90,044	10,293	11.4%	29,811	27,235	2,576	9.5%
Public and other	253,127	238,701	14,426	6.0%	40,964	39,821	1,143	2.9%
Other water revenues	21,057	16,187	4,870	30.1%	—	—	—	—
Billed water services	1,941,054	1,841,321	99,733	5.4%	267,779	264,541	3,238	1.2%
Unbilled water services	(8,973)	27,469	(36,442)	(132.7%)				
Total water service revenues	1,932,081	1,868,790	63,291	3.4%				
Wastewater service revenues	69,721	60,955	8,766	14.4%				
Other revenues	37,644	34,480	3,164	9.2%				
	$2,039,446	$1,964,225	$ 75,221	3.8%				

Water Services – Water service operating revenues for the three months ended September 30, 2014 totaled $717.3 million, a $7.3 million increase, or 1.0%, over the same period of 2013. For the nine months ended September 30, 2014, these revenues increased $63.3 million, or 3.4%, compared to the nine months ended September 30, 2013. As described above, the increases for both the three and nine months ended September 30, 2014 are primarily due to rate increases, incremental revenues associated with surcharges and amortization of balancing accounts and recent acquisitions. Also, it should be noted that the mix between billed revenues and unbilled revenues for the three and nine months ended September 30, 2014, as compared to the same periods in 2013, has changed. This change is principally the result of the implementation of our Customer Information System ("CIS") as part of Phase II of our business transformation project. At December 31, 2013, unbilled revenues were significantly higher than historical levels due to billing delays in certain accounts. During the first quarter of 2014, we addressed a majority of these delayed billings. Therefore, as a result, the change in unbilled water revenue for the three and nine-month periods ended September 30, 2014, compared to the same periods in 2013, decreased by $15.4 million and $36.4 million, respectively, with corresponding increases in billed revenues.

Wastewater services – Our subsidiaries provide wastewater services in eleven states. Revenues from these services increased $2.3 million, or 11.3%, and $8.8 million, or 14.4%, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase is primarily attributable to the Dale acquisition in the fourth quarter of 2013.

Other revenues – Other revenues, which include such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $1.0 million, or 8.2%, and $3.2 million, or 9.2%, for the three and nine months ended September 30, 2014, respectively. The increase for the three months ended September 30, 2014 is principally due to the additional surcharge revenues. The nine-month period increase is primarily due to $2.4 million in insurance proceeds for business interruption as a result of Hurricane Sandy in addition to an increase in late payment fees.

Operation and maintenance expense. Operation and maintenance expense decreased $14.3 million, or 4.9%, and increased $6.4 million, or 0.8%, for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013.

The following table provides information regarding operation and maintenance expense for the three and nine months ended September 30, 2014 and 2013, by major expense category:

	For the three months ended September 30,				For the nine months ended September 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs	$ 79,455	$ 82,093	$ (2,638)	(3.2%)	$ 222,855	$ 207,698	$ 15,157	7.3%
Employee-related costs	106,672	114,127	(7,455)	(6.5%)	321,452	342,611	(21,159)	(6.2%)
Operating supplies and services	53,204	54,215	(1,011)	(1.9%)	163,460	163,998	(538)	(0.3%)
Maintenance materials and supplies	15,421	15,357	64	0.4%	53,581	47,733	5,848	12.3%
Customer billing and accounting	15,420	16,193	(773)	(4.8%)	44,707	38,380	6,327	16.5%
Other	8,104	10,625	(2,521)	(23.7%)	34,169	33,423	746	2.2%
Total	$ 278,276	$ 292,610	$ (14,334)	(4.9%)	$ 840,224	$ 833,843	$ 6,381	0.8%

Production costs by major expense type were as follows:

	For the three months ended September 30,				For the nine months ended September 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Purchased Water	$ 33,674	$ 33,956	$ (282)	(0.8%)	$ 93,332	$ 84,759	$ 8,573	10.1%
Fuel and Power	25,890	25,990	(100)	(0.4%)	71,025	66,227	4,798	7.2%
Chemicals	12,521	15,063	(2,542)	(16.9%)	35,316	36,997	(1,681)	(4.5%)
Waste Disposal	7,370	7,084	286	4.0%	23,182	19,715	3,467	17.6%
Total	$ 79,455	$ 82,093	$ (2,638)	(3.2%)	$ 222,855	$ 207,698	$ 15,157	7.3%

Production costs decreased by $2.6 million, or 3.2%, for the three months ended September 30, 2014 and increased by $15.1 million, or 7.3%, for the nine months ended September 30, 2014. The decrease for the three month period was primarily due to a $1.8 million reversal of chemical expense resulting from a favorable litigation settlement. The increase for the nine month period was primarily due to increases in purchased water, fuel and power costs and waste disposal. Partially offsetting these increases was a decrease in chemicals due to the credit discussed above. The purchased water increases principally reflect increased prices in our California subsidiary. Fuel and power costs increased due to increased customer demand and higher supplier prices in several of our operating facilities as well as incremental costs as a result of the Dale acquisition in the fourth quarter of 2013. The increase in waste disposal costs for both the three and nine month periods was principally due to an increase in the amount allowed by a cost recovery mechanism in one of our operating companies and the Dale acquisition. Also contributing to the nine month increase was incremental costs associated with the Freedom Industries chemical spill in West Virginia.

The following table provides information with respect to components of employee-related costs for the three and nine months ended September 30, 2014 and 2013:

	For the three months ended September 30,				For the nine months ended September 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Salaries and wages	$ 81,456	$ 81,211	$ 245	0.3%	$ 245,107	$ 241,617	$ 3,490	1.4%
Pensions	6,648	11,976	(5,328)	(44.5%)	20,268	36,604	(16,336)	(44.6%)
Group insurance	13,759	16,636	(2,877)	(17.3%)	41,889	50,283	(8,394)	(16.7%)
Other benefits	4,809	4,304	505	11.7%	14,188	14,107	81	0.6%
Total	$ 106,672	$ 114,127	$ (7,455)	(6.5%)	$ 321,452	$ 342,611	$ (21,159)	(6.2%)

The overall decrease in employee-related costs for the three and nine months ended September 30, 2014, compared to the same periods in 2013, was primarily due to a reduction in pension costs and postretirement benefit costs (which is included in group insurance expenses). These decreases are principally due to the change in assumptions used for the discount rate, which in turn resulted in decreased contributions. The decrease in contributions occurred principally at those of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Partially offsetting these decreases was an increase in salaries and wages expense for the three and nine months ended September 30, 2014, compared to the same periods in 2013. For the three month period, the increase is the result of annual wage and overtime expense increases offset by higher capitalization rates as a result of increased capital projects. For the nine month period, the increase is the result of annual wage increases and increased overtime expense attributable to an increased number of main breaks as a result of the harsh winter weather conditions, offset by a reduction in incentive compensation due to a lower than expected payout for the 2013 incentive period as well as higher capitalization rates as a result of increased capital projects.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, remained relatively unchanged for the three months ended September 30, 2014 compared to the same period in 2013. The increase of $5.8 million, or 12.3%, for the nine months ended September 30, 2014, compared to the same period in 2013, is primarily due to an increase in tank painting costs in one of our subsidiaries and increases in paving, backfilling and other repair costs, most of which are from the higher than normal main breaks in the first quarter of 2014 due to the abnormally harsh winter weather conditions experienced throughout our operating areas.

Customer billing and accounting expenses, which include uncollectible accounts expense, postage and other customer related expenses, decreased by $0.8 million, or 4.8%, for the three months ended September 30, 2014 and increased by $6.3 million, or 16.5%, for the nine months ended September 30, 2014. The increase for the nine-month period is primarily due to incremental uncollectible expense associated with an increase in customer accounts receivable attributable to the overall aging of receivables as well as rate increases. We believe the aging of our receivables is the result of temporary changes made in our collection process with the implementation of our new Customer Information System in 2013. As such we anticipate uncollectible expense will continue to be higher this year.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. The decrease in these costs for the three months ended September 30, 2014 compared to the prior year period was primarily driven by lower regulatory expenses as well as lower casualty insurance costs, as a result of historical claims experience, and retroactive premium adjustments. The increase for the nine-month period ended September 30, 2014 compared to the nine months ended September 30, 2013 was primarily due to an increase in our expected retroactive premiums, principally due to incremental claims associated with the Freedom Industries chemical spill in West Virginia, net of favorable forecasted experience for already existing claims. These retroactive premiums are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature. The increase in insurance costs is partially offset by lower regulatory expenses in one of our operating subsidiaries compared to the same period in the prior year.

Operating expenses. The decrease in operating expenses, for the three and nine months ended September 30, 2014, is principally due to the decreases in operation and maintenance expense explained above and higher depreciation and amortization expense of $4.5 million and $16.1 million for the three and nine months ended September 30, 2014, respectively. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including CIS and our Enterprise Asset Management system.

Market-Based Operations

The following table provides financial information for our Market-Based Operations segment for the periods indicated:

	For the three months ended September 30,			For the nine months ended September 30,		
	2014	2013	Increase (Decrease)	2014	2013	Increase (Decrease)
	(In thousands)					
Operating revenues	$ 96,980	$ 83,558	$ 13,422	$ 253,857	$ 221,751	$ 32,106
Operation and maintenance expense	77,401	59,682	17,719	204,460	172,684	31,776
Operating expenses, net	79,915	62,957	16,958	212,075	181,526	30,549
Income from continuing operations before income taxes	17,634	21,457	(3,823)	43,593	42,570	1,023

Operating revenues. Revenues for the three and nine months ended September 30, 2014 increased $13.4 million and $32.1 million, respectively, compared to the same periods in 2013, as a result of incremental revenues in our Contract Operations Group (“ConOp”) and HOS lines of business. For the three and nine months ended September 30, 2014, our ConOp revenue increased $9.9

million and $19.8 million, respectively. These increases are primarily related to additional revenues from capital project activities associated with our military contracts. Partially offsetting these incremental revenues were the effects of retroactive price redeterminations for several of our military contracts which increased revenues by $3.4 million and $5.7 million for the three and nine months ended September 30, 2013, respectively. Other decreases in revenues in the 2014 periods compared to the prior year periods include terminated municipal and industrial operations and maintenance contracts. HOS revenues increased $3.5 million and $12.6 million for the three and nine months ended September 30, 2014, respectively. These increases were principally the result of contract growth, mainly through our New York City contracts, as well as expansion into other geographic areas and price increases for certain existing customers.

Operation and maintenance. Operation and maintenance expense increased $17.7 million, or 29.7%, and $31.8 million, or 18.4% for the three and nine months ended September 30, 2014, respectively.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the three months ended September 30,				For the nine months ended September 30,			
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs	$ 8,511	$ 9,333	$ (822)	(8.8%)	$ 26,372	$ 27,803	$ (1,431)	(5.1%)
Employee-related costs	15,993	14,673	1,320	9.0%	45,069	44,162	907	2.1%
Operating supplies and services	38,836	24,757	14,079	56.9%	93,518	67,611	25,907	38.3%
Maintenance materials and supplies	12,443	9,778	2,665	27.3%	34,753	30,161	4,592	15.2%
Other	1,618	1,141	477	41.8%	4,748	2,947	1,801	61.1%
Total	$ 77,401	$ 59,682	$ 17,719	29.7%	$ 204,460	$ 172,684	$ 31,776	18.4%

As noted in the table above, the primary factor contributing to the overall increase was an increase in operating supplies and services. This increase is mainly attributable to the increase in construction project activities under our military contracts and corresponds with the incremental revenues. Additionally, included in the three and nine months ended September 30, 2013 was the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. The increase in maintenance materials and supplies increased primarily due to higher HOS repair costs, which is attributable to new contracts.

Operating expense. The changes in operating expenses for the three and nine months ended September 30, 2014, compared to the same periods in 2013, are primarily due to the variances in the operation and maintenance expense explained above.

Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

We rely on our revolving credit facility, the capital markets and our cash flows from operations to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and, to the extent necessary, our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and, from time to time, for direct borrowings. As of September 30, 2014, AWCC had no outstanding borrowings and $39.7 million of outstanding letters of credit under the revolving credit facility. As of September 30, 2014, AWCC had $1.2 billion available under the credit facility that we can use to fulfill our short-term liquidity needs, to issue letters of credit and support our $314.0 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from continuing operating activities for the nine months ended September 30, 2014 were $840.9 million compared to $688.5 million for the nine months ended September 30, 2013.

The following table provides a summary of the major items affecting our cash flows from continuing operating activities for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)	
Net income	$ 329,607	$ 309,571
Add (subtract):		
Non-cash activities (1)	576,381	561,285
Changes in working capital (2)	(29,303)	(104,643)
Pension and postretirement healthcare contributions	(35,783)	(77,664)
Net cash flows provided by continuing operations	$ 840,902	$ 688,549

(1) Includes depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenue, taxes receivable (including income taxes), other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

The increase in cash flows from operating activities during the nine months ended September 30, 2014 as compared to the same period in 2013 reflects higher net income adjusted for non-cash activities, changes in working capital and a reduction in pension and postretirement benefit contributions. The increase in working capital for the nine months ended September 30, 2014 compared to the same period in the prior year is principally the result of increased processing of payments, accounts payable and accrued expenses in the first quarter of 2013, which was attributed to delays in payment of vendor invoices in the latter portion of 2012 as a result of the implementation of Phase I of our business transformation project.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses segment. We address this timing issue through the aforementioned liquidity funding mechanisms. Our cash collections for our Regulated Businesses' accounts receivable, some of which were unbilled as December 31, 2013, has showed improvement during 2014 compared to the second half of 2013. In the second half of 2013, the rate of cash collections, particularly in those states in which we implemented CIS in the second quarter of 2013, were slower than historical payment patterns. We believe this degradation in cash collections to be a result of certain process decisions, made as part of the CIS implementation, including the manual validation of bills prior to mailing to customers and decreased collection efforts. Therefore, we believe this situation to be only temporary in nature. Although cash collections increased during the first nine months of 2014, there are no assurances that the rate of cash collections will continue or be consistent with previous historical collection patterns.

Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities of continuing operations for the periods indicated:

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)	
Net capital expenditures	$ (664,859)	$ (664,975)
Proceeds from sale of assets and securities	804	749
Acquisitions	(6,053)	(16,554)
Other investing activities, net (1)	(51,221)	(38,300)
Net cash flows used in investing activities of continuing operations	$ (721,329)	$ (719,080)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be financed with customer advances (net of refunds) and contributions in aid of construction (net of refunds).

As previously noted, AWCC is a wholly-owned finance subsidiary of American Water Works Company, Inc. (the "parent company"). Based on the needs of our regulated subsidiaries and the parent company, AWCC borrows in the capital markets and then, through intercompany loans, provides proceeds of those borrowings to the regulated subsidiaries and the parent company. The regulated subsidiaries and the parent company are obligated to pay to AWCC their respective portion of principal and interest in the amount required to enable AWCC to meet its debt service obligations. Because the parent company borrowings are not a source of capital for the Company's regulated subsidiaries, the Company is not able to recover the interest charges on parent company debt through regulated water and wastewater rates.

We intend to utilize commercial paper for short-term liquidity, as commercial paper borrowings have historically been a more flexible and lower cost option. However, if necessary, we utilize our credit facility to complement our borrowings in the commercial paper market. In the event of disruptions in the money market sector of the debt capital markets, borrowings under our revolving credit facility may be more efficient and a lower cost alternative to commercial paper.

The following table provides information on long-term debt that was issued during the first nine months of 2014:

Company	Type	Rate	Maturity	Amount (In thousands)
American Water Capital Corp. (1)	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$ 500,000
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$ 510,474

(1) On August 14, 2014, AWCC closed on senior fixed rate notes. Proceeds used to refinance commercial paper borrowings and to finance redemptions of long-term debt.

(2) Proceeds from the above issuance, which were initially kept in trust, were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash in the accompanying Consolidated Statements of Cash Flows. Subsequent releases of the funds will be reflected as net funds released in the cash flows from investing activities section of the Consolidated Statements of Cash Flows.

In addition to the above issuance, we also assumed $1.7 million of debt as a result of an acquisition.

The following long-term debt was retired through sinking fund provisions or payment at maturity during the first nine months of 2014:

Company	Type	Rate	Maturity	Amount (In thousands)
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2014-2031	$ 77,760
American Water Capital Corp.	Senior notes—fixed rate	6.00%	2039	9
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	60,165
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1,200
Other subsidiaries	Capital lease payments			20
Total retirements and redemptions				$ 139,154

(1) Includes $1.2 million of non-cash defeasance via the use of restricted funds.

In September 2014, AWCC issued a notice of redemption for $23.3 million of outstanding 6.25% Senior Notes with an original maturity of 2032. These notes will be retired on November 1, 2014. Also, in September, our New York subsidiary issued a notice of redemption for 4.9% notes with an original maturity of 2034. These notes were retired on October 1, 2014. Lastly, on October 9, 2014, we issued a notice of redemption for $59.6 million of outstanding 6.00% Senior Notes with an original maturity date of 2039. These notes will be retired on December 1, 2014.

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other transactions.

Credit Facilities and Short-Term Debt

Short-term debt balance, consisting of commercial paper, net of discount, amounted to $314.0 million at September 30, 2014.

The following table provides information as of September 30, 2014 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sub-limit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
	(In thousands)					
September 30, 2014	$ 1,250,000	$ 1,210,337	$ 150,000	$ 110,337	$ 313,979	$ —

The weighted-average interest rate on short-term borrowings for the three months ended September 30, 2014 and 2013 was approximately 0.29% and 0.33%, respectively, and 0.29% and 0.36% for the nine months ended September 30, 2014 and 2013, respectively.

Capital Structure

The following table provides information regarding our capital structure for the periods presented:

	At September 30, 2014	At December 31, 2013
Total common stockholders' equity	45%	45%
Long-term debt and redeemable preferred stock at redemption value	51%	49%
Short-term debt and current portion of long-term debt	4%	6%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we, or our subsidiaries, may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements. We do not believe this change will materially impact us. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. As of September 30, 2014, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

The following table shows the Company's securities ratings as of September 30, 2014:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment if a downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if our debt is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to reference such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

Dividends

Our board of directors’ practice has been to distribute to our shareholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Since the dividends on our common stock are not cumulative, only declared dividends will be paid.

On March 3, 2014, we made a cash dividend payment of $0.28 per share to all shareholders of record as of February 3, 2014. On June 2, 2014 and September 2, 2014, we made quarterly cash dividend payments of $0.31 per share to all shareholders of record as of May 12, 2014 and August 11, 2014, respectively.

To permit our shareholders to take advantage of 2012 tax rates, the cash dividend payment that would have historically been paid in March 2013 was paid in December 2012. On June 3, 2013 and September 3, 2013, we made cash dividend payments of $0.28 per share to all shareholders of record as of May 24, 2013 and August 19, 2013, respectively.

On September 19, 2014 our board of directors declared a quarterly cash dividend payment of $0.31 per share payable on December 1, 2014 to all shareholders of record as of November 10, 2014.

Market Risk

There have been no significant changes to our market risk since December 31, 2013. For a discussion of our exposure to market risk, refer to Part II, Item 7A. “Quantitative and Qualitative Disclosures about Market Risk,” contained in our Form 10-K for the year ended December 31, 2013.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates,” in our Form 10-K for the year ended December 31, 2013 for a discussion of our critical accounting policies.

Recent Accounting Pronouncements

See Part I, Item 1 – Financial Statements (Unaudited) – Note 2 – New Accounting Pronouncements in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see "Market Risk" in Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 ("the Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of September 30, 2014 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2014, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Form 10-K") in Part I, Item 3, "Legal Proceedings," and in the Forms 10-Q for the quarters ended March 31, 2014 (the “First Quarter 2014 Form 10-Q”) and June 30, 2014 (the “Second Quarter 2014 Form 10-Q”), in each case in Part II, Item 1, "Legal Proceedings."

Alternative Water Supply in Lieu of Carmel River Diversions

The Form 10-K describes the Complaint for Declaratory Relief filed by California-American Water Company ("CAWC") against the Marina Coast Water District ("MCWD") and the Monterey County Water Resources Agency ("MCWRA"), which, following a transfer of the case, continued before the San Francisco County Superior Court. The Complaint for Declaratory Relief seeks a determination by the Court as to whether certain agreements related to the now-abandoned Regional Desalination Project (the “RDP Agreements”) are void as a result of the alleged conflict of interest of a former director of MCWRA (described in the Form 10-K), or remained valid. As noted in the First Quarter 2014 Form 10-Q, the former director entered a plea of no contest to, among other things, a felony violation of California Government Code section 1090 (“Section 1090”), which precludes public officials from being financially interested in any contract made by them in their official capacity. As also described in the First Quarter 2014 Form 10-Q, the Court ruled that CAWC's action was barred by the statute of limitations, but that MCWRA was subject to a longer statute of limitations under California Government Code section 1092(b), which invalidates contracts made in violation of Section 1090. As further described in the First Quarter 2014 Form 10-Q, MCWRA filed a Cross-Complaint against MCWD, contending that the RDP Agreements were void as a result of the former director's conduct and financial interest in the agreements.

On August 8, 2014, MCWRA filed a motion for summary judgment against MCWD with regard to both MCWRA's Cross-Complaint and the causes of action in MCWD's Cross-Complaint, which was filed on November 21, 2012 and was described in the Form 10-K. On November 3, 2014, the Court denied MCWRA’s motion with regard to MCWRA's Cross-Complaint, and granted the motion with regard to all but two counts in MCWD’s Cross-Complaint. The remaining issues in MCWD’s Cross-Complaint to be addressed by the Court pertain to the question of whether certain of the agreements involve financing obligations and, therefore, are subject to a 60 day statute of limitations that would preclude MCWRA’s Section 1090 action with regard to those agreements; the Court indicated that its earlier rulings in this matter did not address the contracts separately and, therefore, did not address these issues. A trial on the matter is scheduled for December 1-5, 2014.

The Form 10-K also describes CAWC's application with the California Public Utilities Commission ("CPUC") for approval of the Monterey Peninsula Water Supply Project (the "New Project"). The New Project includes a desalination plant north of the City of Marina with slant wells and related infrastructure proposed to be located on property owned by Lonestar California, Inc., Cemex, Inc., Cemex Construction Materials Pacific, LLC, RMC Pacific Materials LLC and/or affiliated entities (collectively, "Cemex").

A preliminary step to building the desalination plant is the installation by CAWC of a temporary test well to confirm the suitability of the property on which permanent intake wells will be located to draw water from under Monterey Bay. In CAWC's settlement agreements with 15 other parties that have intervened in the CPUC proceedings related to the New Project (described in the Form 10-K), the parties agreed that the preferred location to build a temporary test well is the Cemex property. Accordingly, beginning in 2012, CAWC commenced negotiations with Cemex to enable CAWC's purchase of a temporary easement for a test well and an option for a permanent easement for production wells if they were determined to be feasible. However, on September 4, 2014, the City of Marina denied CAWC's application for a coastal development permit to complete the test well. CAWC has appealed the City of Marina's decision to the California Coastal Commission (the "Coastal Commission") to secure approval to complete the test well. Nevertheless, Cemex has advised CAWC that it will no longer negotiate with regard to the easements unless and until CAWC secures approvals from the Coastal Commission. In response, on September 19, 2014, CAWC commenced litigation in the Monterey County Superior Court against Cemex. The litigation currently relates to CAWC's Complaint in Eminent Domain (the “Compliant”), seeking a condemnation of temporary easement that will enable CAWC to construct a temporary test well; CAWC's Ex Parte Application for Order Granting Prejudgment Possession (the "Application"), which would enable CAWC to possess a temporary easement prior to adjudication of the Complaint in Eminent Domain and CAWC's Verified Petition for Immediate Order Permitting Entry Onto Property Pursuant to Code of Civil Procedure Section 1245.010 (the "Petition") (essentially, an alternative action to the Complaint in Eminent Domain and the Application). Among other things, CAWC asserts that as a result of protocol agreed to with the U.S. Fish and Wildlife Service to protect the federally endangered snowy plower, and based on the birds' migratory habits, drilling for a test well must occur between October and February, and failure to timely obtain possession of the test well site will delay the New Project by a year. In addition, CAWC asserted that in order to obtain a coastal development permit from the Coastal Commission, it must demonstrate that it has a legal interest (i.e., the temporary easement) in the Cemex property.

In response to CAWC’s filings, Cemex and, by virtue of its filing of a Motion for Leave to Intervene, MCWD made several filings in opposition to the Complaint, the Application and the Petition. In addition to the allegations of Cemex and MCWD described below, each of Cemex and MCWD also made additional allegations, including some allegations similar to those made by the other.

Cemex has asserted a number of affirmative defenses to the Complaint, including an allegation that CAWC has failed to meaningfully investigate alternative public and private sites for the intake wells for the proposed desalination plant; the construction and operation of the test well will result in unnecessary and reasonable interference with Cemex's sand mining operations; and CAWC has not obtained certain required government approvals to construct the test well. In its opposition to the Application, Cemex's assertions include a claim that an emergency justifying an ex parte order does not exist because CAWC does not have the legal right to begin construction in 2014 even it were to gain a temporary easement. With regard to the Petition, Cemex has asserted, among other things, that CAWC seeks an order that is not permissible under the relevant California statutes, which Cemex claims permits only brief and innocuous rights of entry and not what it alleges is a taking of property by CAWC.

As noted above, MCWD has filed a Motion for Leave to Intervene in the actions related to the Cemex property. In the motion and other related filings, MCWD asserts that it supplies water to residents in the Marina and Ord Community service areas and pumps all of its water supply from groundwater wells situated in the Salinas Valley Groundwater Basin, which includes the Cemex property. MCWD further alleges that CAWC’s pumping from the proposed test well will impact MCWD's water rights and its ability to serve its customers. In addition, MCWD alleges that a portion of the Cemex property is subject to an agreement, to which MCWD is a party, that limits groundwater extraction from the property and that CAWC has failed to prove that the proposed use of the Cemex property is a compatible or more necessary use than MCWD’s use of the property.

CAWC has filed an opposition to MCWD's Motion for Leave to Intervene asserting, among other things, that CAWC is not seeking to use the Cemex property to pump any potable groundwater from the Salinas Valley Groundwater Basin; a primary purpose of the test well is to confirm that CAWC will draw over 96 percent seawater, and that any incidental amounts of highly salt-contaminated, "brackish" (non-potable) water will not have a material impact on any currently used water sources; the agreement relied on by MCWD has nothing to do with the easement sought by CAWC nor with the seawater CAWC seeks to pump from under the basin; MCWD has no property interest in the specific property sought to be taken, does not meet the statutory standards for permissive intervention, and has no direct interest in the easement CAWC seeks to condemn. In other responsive pleadings, CAWC challenged assertions made by Cemex and MCWD, while also characterizing them as collateral attacks that are not relevant to applicable eminent domain law; CAWC argued that the sole issue before the Court is whether CAWC has satisfied the procedural requirements of applicable eminent domain law to acquire a temporary easement over the Cemex property, which CAWC asserts it has done. A hearing on MCWD’s Motion for Leave to Intervene and on CAWC’s Application and Petition is scheduled for November 7, 2014.

The Form 10-K also references settlement agreements with a number of intervenors in CPUC proceedings with respect to the New Project. As noted in the Form 10-K, the settlement agreements will not take effect until, among other things, the CPUC certifies an environmental impact report for the proposed New Project and approves the settlement agreements. The report is now expected to be issued in the third quarter of 2015.

Water Treatment Residuals Disposal Matters

The Form 10-K describes CAWC's determination and self-reporting to the Sacramento County Environmental Management Department ("SCEMD") that it may have improperly disposed of water treatment residuals that are viewed as hazardous under California law from its Isleton treatment plant before July 2013.

After CAWC self-reported the possible violations, SCEMD conducted an extensive series of facility inspections during the third and fourth quarters of 2013. On September 19, 2014, SCEMD issued an Administrative Enforcement Order to CAWC, which, following negotiations between CAWC and SCEMD, was amended on October 21, 2014. The Amended Administrative Enforcement Order cited 14 violations of the California Health and Safety Code at CAWC's Isleton and Parksite (Sacramento) treatment plants. With regard to the Isleton plant, SCEMD found that CAWC failed to properly characterize some water treatment residuals, and consequentially improperly disposed of those materials and failed to comply with various other requirements that would have been triggered if the waste was properly characterized. With respect to the Parksite plant, SCEMD cited miscellaneous violations related to improper characterization, storage and handling of waste, as well as administrative deficiencies related to training and record keeping.

On October 24, 2014, CAWC and SCEMD entered into an Amended Stipulation and Order (the “Order”), which constitutes settlement of the violations cited by SCEMD. Under the Order, CAWC agreed to pay a penalty of $461,000 within 10 business days following the parties’ execution of the Order and to submit current and/or corrected Hazardous Materials Business Plans within 30 days following the parties’ execution of the Order for all CAWC sites in Sacramento County for which a current and/or corrected Hazardous Materials Business Plan was not on file with SCEMD.

West Virginia Elk River Chemical Spill

The Form 10-K and Forms 10-Q address, among other things, litigation relating to leakage of two substances from a chemical storage tank owned by Freedom Industries, Inc. into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia (the “Elk River Chemical Spill”). Among the actions described in the Second Quarter 2014 Form 10-Q is the consolidated class action complaint filed in the United States District Court for the Southern District of West Virginia against multiple individuals and corporate entities, including WVAWC, American Water Works Service Company, Inc. and the Company (collectively, the “American Water Defendants”). On September 5, 2014 and October 27, 2014, the Court entered scheduling orders, setting a schedule for discovery and class certification motions, culminating in a class certification hearing to be held on September 25, 2015. A trial date has not yet been set.

The Court has not yet acted upon the American Water Defendants’ motions to dismiss.

As also described in the Second Quarter 2014 Form 10-Q, on May 21, 2014, the Public Service Commission of West Virginia (the “PSC”) issued an Order initiating a General Investigation into certain issues relating to WVAWC's response to the Elk River Chemical Spill. Three parties have intervened in the proceeding, including the Consumer Advocate Division of the PSC and two attorney-sponsored groups, including one sponsored by some of the plaintiffs’ counsel involved in the civil litigation described above. WVAWC is subject to discovery from PSC staff and the intervenors as part of the General Investigation. Several disputes have arisen between the WVAWC and the intervenors regarding, among other things, the scope of the discovery and the maintenance of confidentiality with regard to certain WVAWC emergency planning documents. In order to address these disputes, the PSC extended the final hearing date to February 10-12, 2015.

Labor Dispute Regarding National Benefits Agreement

The Company’s Form 10-Q for the quarter ended June 30, 2014 describes a dispute between the Company and most of the labor unions which represent employees in the Regulated Businesses (the “Unions”) regarding the Company’s national benefits agreement. On October 13, 2014, the Company and the Utility Workers Union of America AFL-CIO entered into a settlement agreement designed to resolve the dispute between the Company and the Unions. Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, the Company agreed to make a $10 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of the Company’s last, best and final offer effective January 1, 2011. The majority of the distributions are expected to be used to reimburse employees for medical claims which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates - Active Employees VEBA (the “VEBA Trust”), to which the Company previously has made contributions. Therefore, amounts funded out of the VEBA Trust will not have an impact on earnings. The Unions approved the settlement agreement on October 30, 2014 and the National Labor Relations Board (the “NLRB”) approved the settlement agreement on October 31, 2014. The NLRB advised the Company that it will dismiss its petition for enforcement filed in the United States Court of Appeals for the Seventh Circuit and close the case after the Company has substantially complied with its obligations under the settlement agreement to make the lump sum payment and to post a notice to employees agreeable to the Company and acceptable to the NLRB.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2013, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
*31.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Linda G. Sullivan, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from American Water Works Company, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014, filed with the Securities and Exchange Commission on November 5, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders' Equity; and (v) the Notes to Consolidated Financial Statements.

* filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 5th day of November, 2014.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

/S/ Susan N. Story
Susan N. Story
President and Chief Executive Officer
Principal Executive Officer

/S/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
Principal Financial Officer

/S/ Mark Chesla
Mark Chesla
Vice President and Controller
Principal Accounting Officer

EXHIBIT INDEX

Exhibit Number	Exhibit Description
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* filed herewith.

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

> a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
>
> b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
>
> d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

> a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
>
> b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2014

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Linda G. Sullivan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2014

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014, as filed with the Securities and exchange Commission on the date hereof (the "Report"), I, Susan N. Story, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY
Susan N. Story
President and Chief Executive Officer
(Principal Executive Officer)

November 5, 2014

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION PURSUANT TO
PURSUANT TO U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014, as filed with the Securities and exchange Commission on the date hereof (the "Report"), I, Linda G. Sullivan, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 202, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ LINDA G. SULLIVAN
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

November 5, 2014

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AWK 8-K 1/20/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 20, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ **Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)**

☐ **Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)**

☐ **Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))**

☐ **Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))**

Item 7.01 Regulation FD Disclosure

On January 20, 2015, American Water Works Company, Inc.'s utility subsidiary, California-American Water Company ("CAWC"), announced a one-year extension in its Cost of Capital filing with the California Public Utilities Commission (the "CPUC").

CAWC, along with three other Class A water companies (California Water Service Company, Golden State Water Company, and San Jose Water Company) has reached an agreement with the CPUC to defer the next cost of capital application to March 31, 2016, having met the requirements put forth by the Executive Director of the CPUC. As part of the conditional approval, the four water companies agreed to forgo any adjustment to their authorized cost of capital in 2016, including any change that would otherwise have applied due to the water cost of capital adjustment mechanism. The result is that CAWC's current authorized cost of capital of 8.41% will continue in effect through December 31, 2016.

The information furnished pursuant to Item 7.01 of this Current Report shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be incorporated by reference into future filings by the Company under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, unless the Company expressly sets forth in such future filing that such information is to be considered "filed" or incorporated by reference therein.

This current report includes forward-looking statements. These forward-looking statements are subject to various risks and uncertainties that may be outside the control of American Water Works Company, Inc. ("AWK"). AWK has no obligation to publicly update or revise any forward-looking statements, whether due to new information, future events, or otherwise. This current report should be read with AWK's Annual Report on Form 10-K for the year ended December 31, 2013 and subsequent Quarterly Reports on Form 10-Q.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 21, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

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Toggle SGML Header (+)

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 14, 2015

American Water Works Company, Inc.
(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. **Regulation FD Disclosure.**

The presentation for the American Water Works Company, Inc. 2015 Investor Day conference, to be held on December 15, 2015 in New York, New York, is attached hereto as Exhibit 99.1 and is hereby incorporated by reference herein.

On December 14, 2015, American Water Works Company, Inc. (the "Company") issued a press release announcing the Company's earnings from continuing operations guidance for the 2016 fiscal year and reaffirming its expected earnings from continuing operations range for the 2015 fiscal year. A copy of this press release is attached hereto as Exhibit 99.2 and is incorporated by reference herein.

The information furnished in this Current Report, including Exhibits 99.1 and 99.2, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. **Financial Statements and Exhibits.**

(d) Exhibits.

The following exhibits have been furnished herewith:

Exhibit	Description
99.1	American Water Works Company, Inc. 2015 Investor Day Presentation
99.2	Press Release, dated December 14, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: December 14, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description
99.1*	American Water Works Company, Inc. 2015 Investor Day Presentation
99.2*	Press Release, dated December 14, 2015, issued by American Water Works Company, Inc.

* Furnished herewith.

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

AMERICAN WATER

NYSE: AWK

INVESTOR DAY

Dec 15, 2015

Greg Panagos
Vice President of Investor Relations

Today's Agenda

Safety Moment

AMERICAN WATER

Forward-Looking Statements

Certain statements in this presentation including, without limitation, 2015 earnings guidance and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates and other matters; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; potential costs and liabilities of American Water for environmental matters associated with the operations of Keystone Clearwater Solutions, LLC; the outcome of litigation and government action including with respect to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes and tornadoes, and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its technology systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies and attacks on its computer systems; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including concession arrangements and agreements for provision of water services in shale regions for exploration and production; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on its current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; the ability to utilize its U.S. and state net operating loss carryforwards; migration of customers into or out of its service territories and the condemnation of its systems by municipalities using the power of eminent domain; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges related to American Water's goodwill or other assets; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement, except as otherwise required by the federal securities laws.

AMERICAN WATER

Today's Agenda and Speakers:

Strategy Overview:
Susan Story

Regulated Operations:
Walter Lynch

American Water Enterprises:
Sharon Cameron

Keystone Clearwater Solutions:
Ned Wehler

2015 Financial Overview:
Linda Sullivan

Susan Story

President and Chief Executive Officer

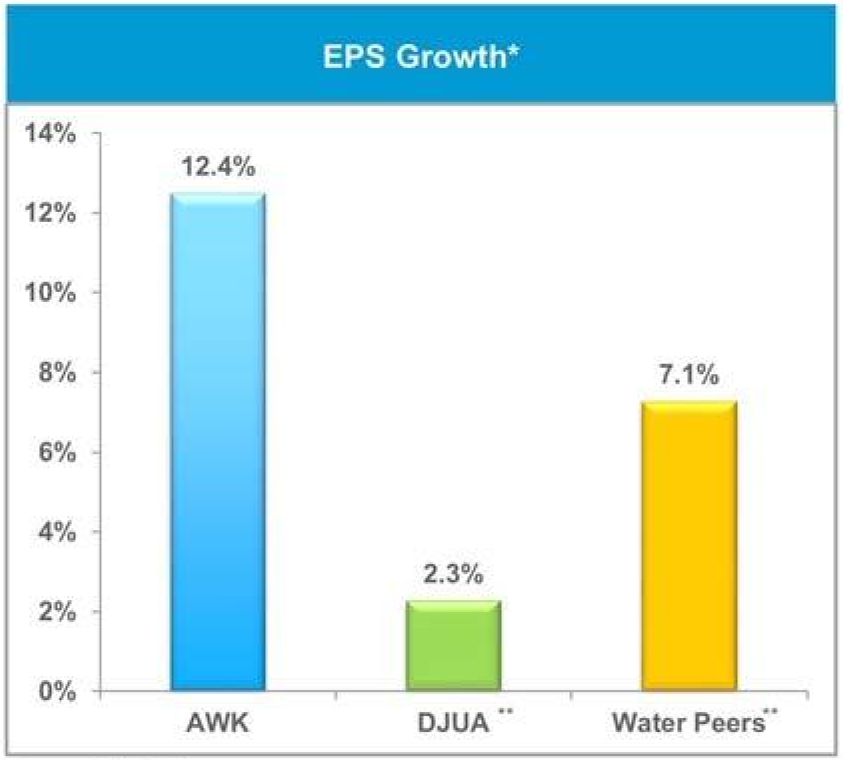
Overview

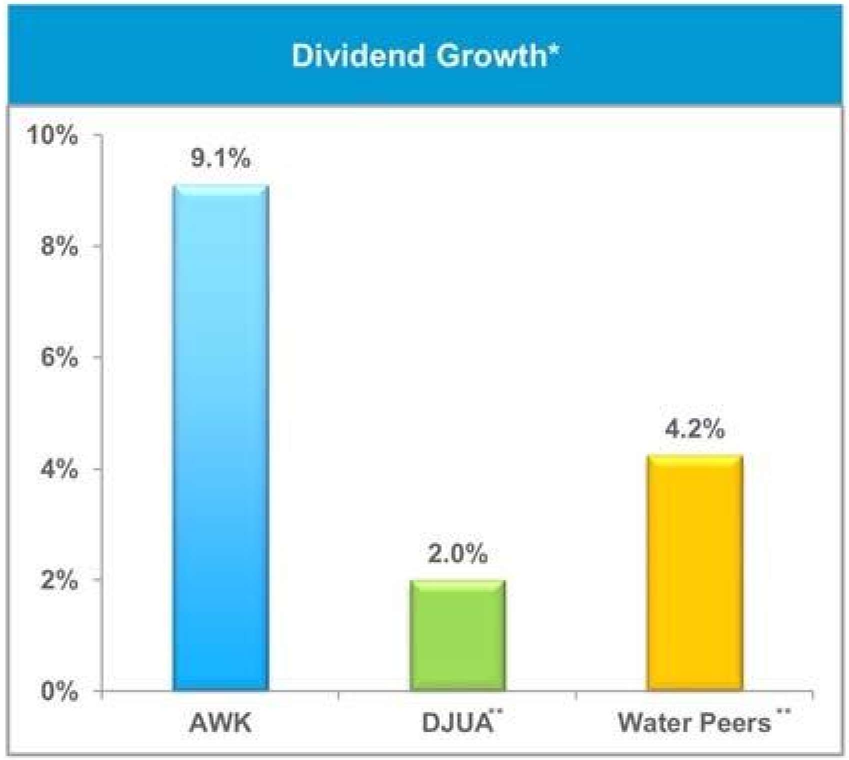
AMERICAN WATER

Utility Markets Today

Demonstrated Superior Performance vs Peers: 2010-2015

Results in Leading Total Shareholder Returns





Source: Factset

*2015 EPS and dividends are based on year-to-date actuals through September 30 plus fourth quarter Factset consensus estimates.

**DJUA includes: AEP , AES , AWK , CNP , D , DUK , ED , EIX , EXC , FE , NEE , NI , PCG , PEG , SO. Water peers include: AWR , ARTNA, CTWS , CWT , MSEX, SJW , WTR , YORW.

AMERICAN WATER

Leading Total Shareholder Return

$100 investment in AWK 5 years ago, would be worth over $260 today.

AMERICAN WATER

Why American Water?

		AWK
Growth	EPS growth 7-10%, over next 5 years*	✓ Top quartile
	Multi-decade investment needs	✓ Clear line of sight
	Fragmented market	✓ Water & wastewater
People & Business Model	Strong local presence and national scale	✓ Personalized economies of scale
	Regulatory expertise	✓ Seasoned state leaders
	Strong record of execution	✓ 2010-2015 EPS CAGR of 12.4%
	Broad and diversified experience	✓ Multi-utility backgrounds
	Strong bench strength	✓ Robust succession planning
Risk Profile	Smooth regulated capital deployment	✓ Flexible and sustainable
	Absence of federal economic regulation	✓ Unlike electrics and gas
	Geographic diversity	✓ Most diverse utility
	Market-based complementary businesses	✓ Regulated-like
Financial Strength	Dividend growth	✓ Top quartile
	Strong credit ratings/access to capital	✓ Top quartile
	Greater than $10 billion market cap	✓ Only water utility >$10B
	Strong cash flows	✓ No need to issue equity**

*Anchored from 2014, adjusted EPS
**Under normal operating conditions

Top-quartile Growth → Low Risk → Strong Financials → Best People → AWK

December 2015

AMERICAN WATER

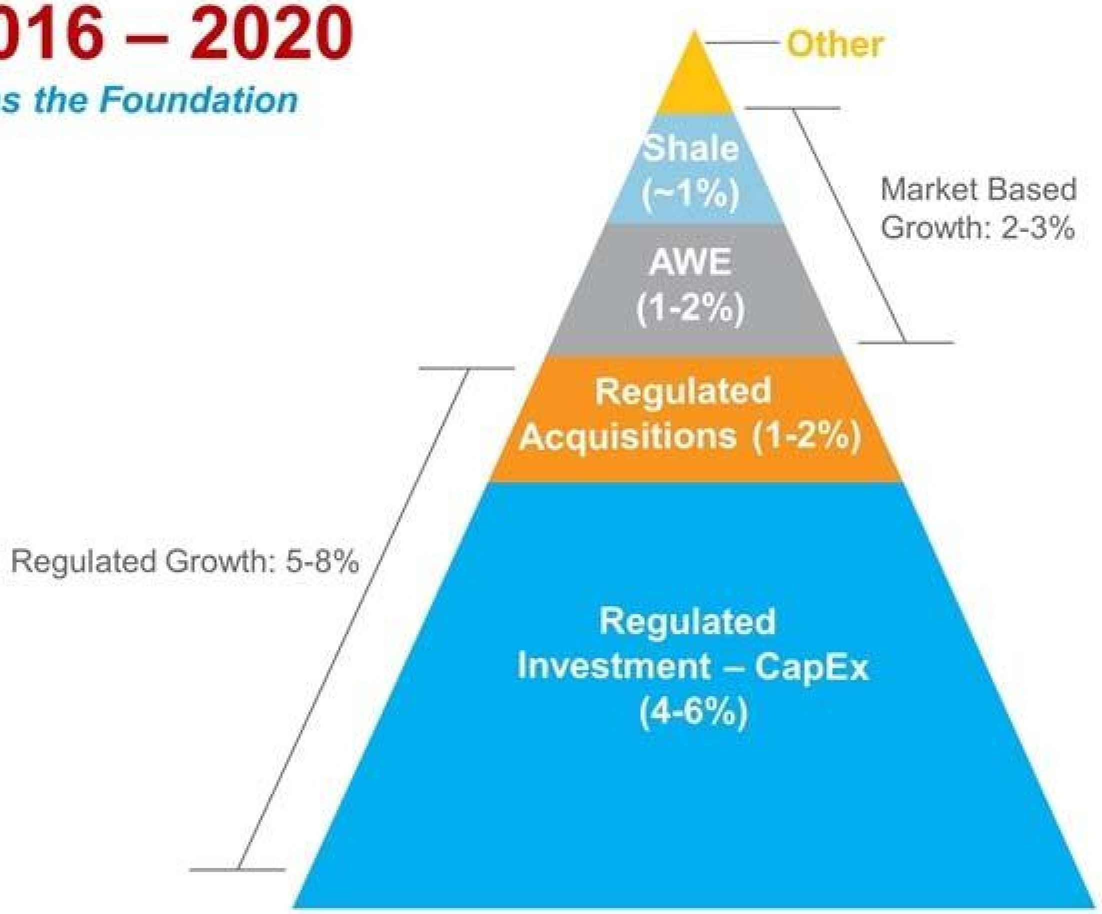
Our Future: EPS Growth Target of 7-10% from 2016 – 2020

Our Regulated Business Remains the Foundation

- **Great investment opportunity**
- **Outstanding execution**
- **Best people in the industry**

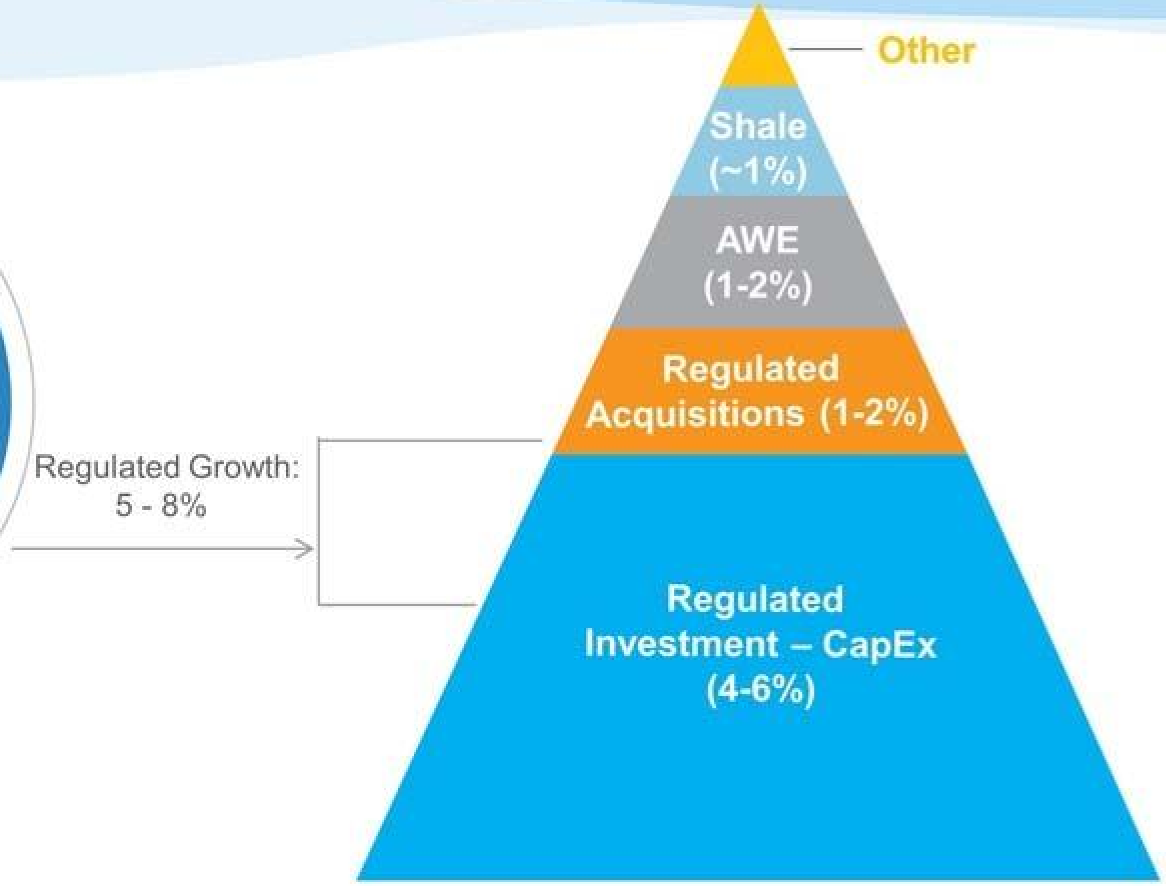
**Anchored from adjusted FY 2014.*

2016 – 2020 Plan*



Walter Lynch

President and Chief Operating Officer
Regulated Operations



Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Growth: 5 - 8%

Regulated Investment – CapEx (4-6%)

The Dominant Player in the Water Industry

We manage more than 370 individual water systems across the country

Every day we operate and manage:

- **48,000** miles of distribution and collection mains
- **81** surface water treatment plants
- **89** dams
- **100** wastewater treatment facilities
- **500** groundwater treatment plants
- **1,000** groundwater wells
- **1,200** treated water storage facilities
- **1,300** pumping stations

AMERICAN WATER

Our Geographic Diversity is a Key Competitive Advantage

AMERICAN WATER REGULATED OPERATIONS

AMERICAN WATER

State	FY 2014 Revenues ($ mm)	% of Total
New Jersey	$652	25%
Pennsylvania	605	23%
Missouri	270	10%
Illinois	262	10%
California	210	8%
Indiana	201	7%
West Virginia	127	5%
Other	347	12%
Total Regulated Business	$2,674	100%

AMERICAN WATER

Strong Leadership with Extensive Water Experience

Alan DeBoy
VP Opr. Excellence

Bruce Hauk
President, Illinois

Rob Maclean
President,
California/Hawaii

Cheryl Norton
President, Missouri

Kathy Pape
Sr. VP Mid-Atlantic
Division and
President, Pennsylvania

Nick Rowe
Sr. VP Central
Division and
President, Kentucky

Karla Teasley
VP Customer Svc

Bill Varley
Sr. VP Northeast
Division and
President, New Jersey

Combined **200 Years** of regulated water utility experience!

Critical Need for Investments

- By 2020, 44% of U.S. pipe infrastructure to be classified as poor, very poor, or life elapsed…
  … We replace about 350 miles of pipe each year
- In USA 2 trillion gallons of treated water is lost each year…
  … Our water loss is 20% vs. industry average 25%
- 900 billion gallons of untreated sewage is discharged every year…
  …Invested $175M in wastewater infrastructure since 2010
- Nationwide $1 trillion is required in water and wastewater systems over the next 20 years…
  … Multi-decade investment need

Our **48,000 miles** of pipe would stretch around the world twice

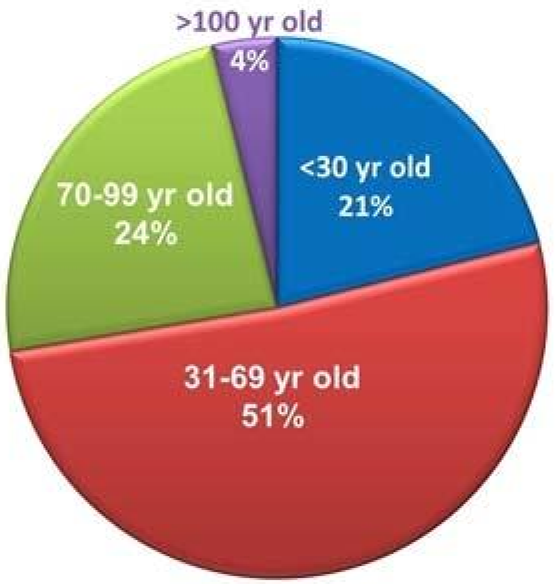
Wooden water pipes

Corroded water pipe

AMERICAN WATER

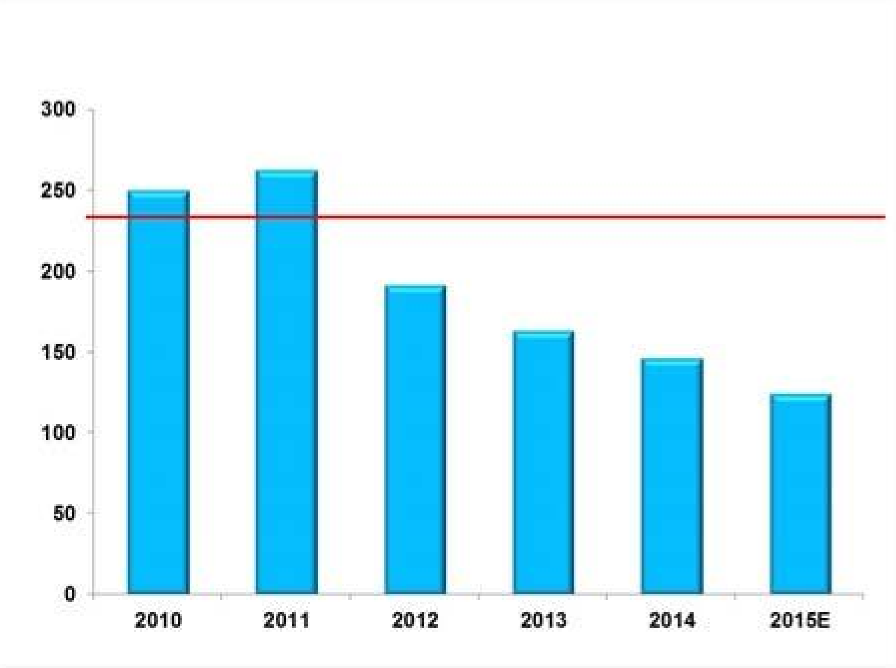
Multi-decade Investment Need

Pipe Age Distribution – AW System



Over 25% of pipes are 70 years or older

American Water Pipe Replacement Rate
(in years)

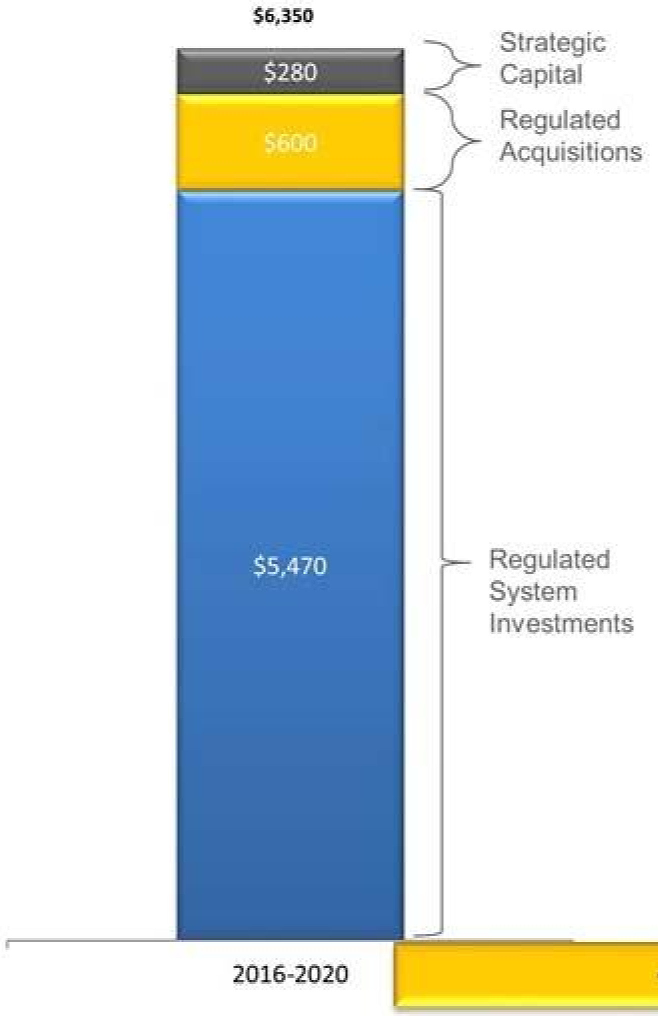


Pipe Replacement rate is shortening

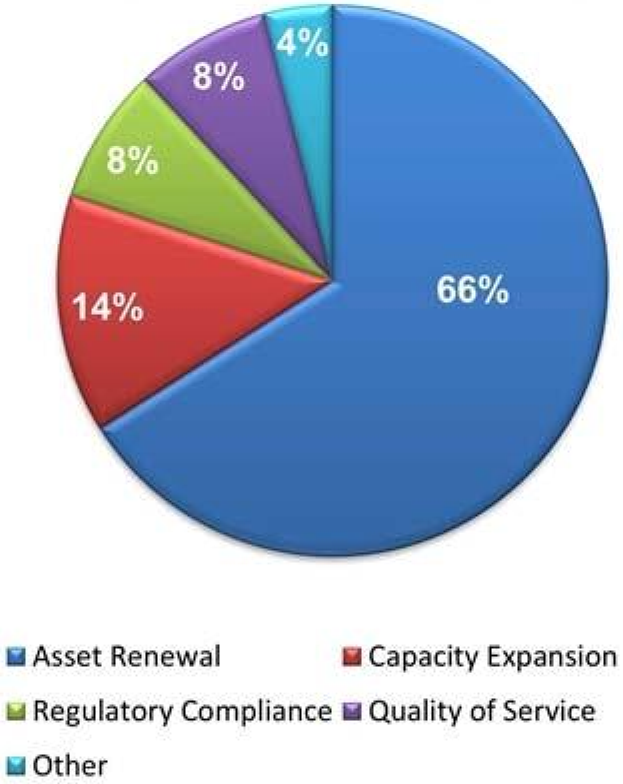
AMERICAN WATER

$6.4 Billion of Investments From 2016 – 2020

$5.5 Billion of Regulated System Investments



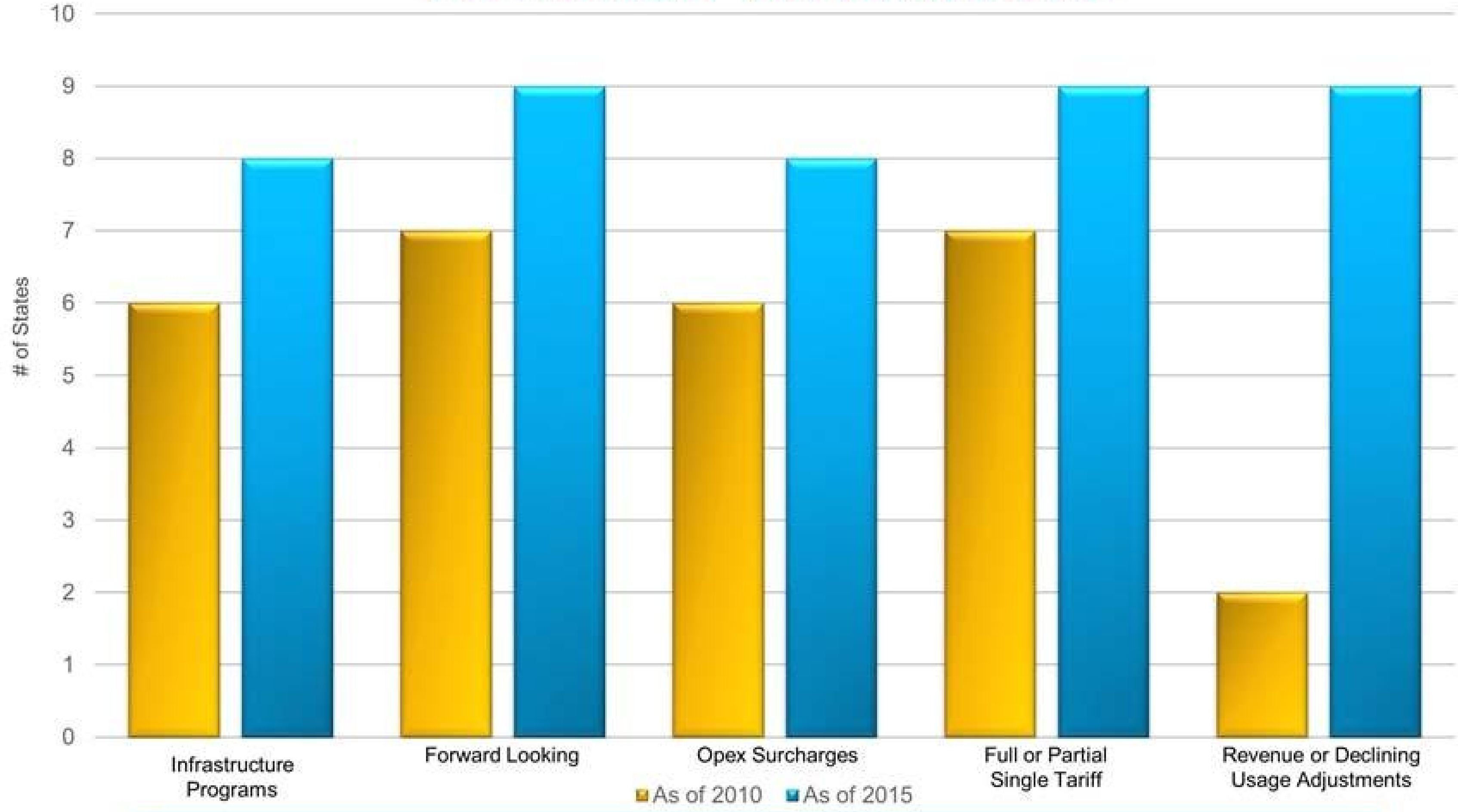
2016 - 2020 Average Regulated Capital Expenditures by Purpose



~$3.6B Toward Asset Renewal

AMERICAN WATER

More Timely Return on Investment Supports Customers' Best Interests



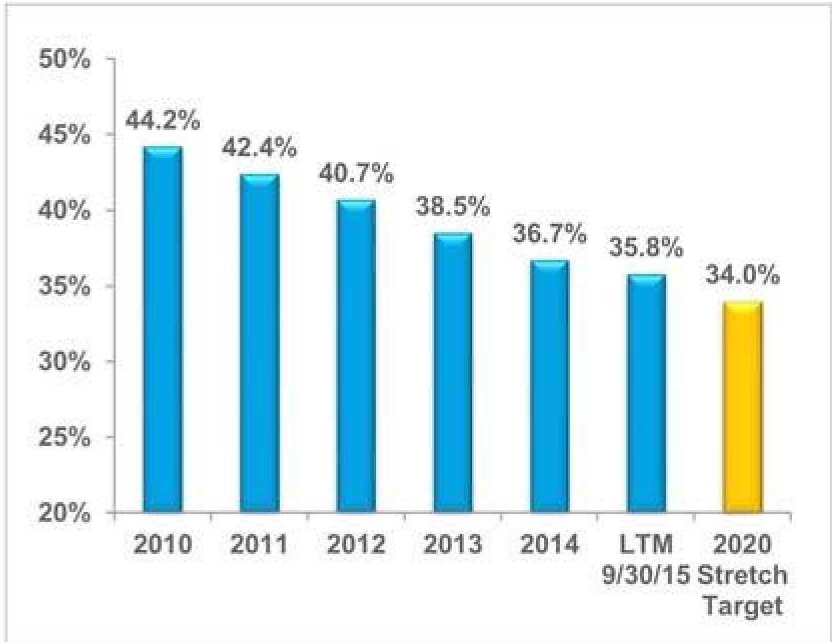
15 New Regulatory Mechanisms Across Our Footprint Since 2010

AMERICAN WATER

O&M Efficiency Creates Running Room to Invest

O&M Efficiency Ratio

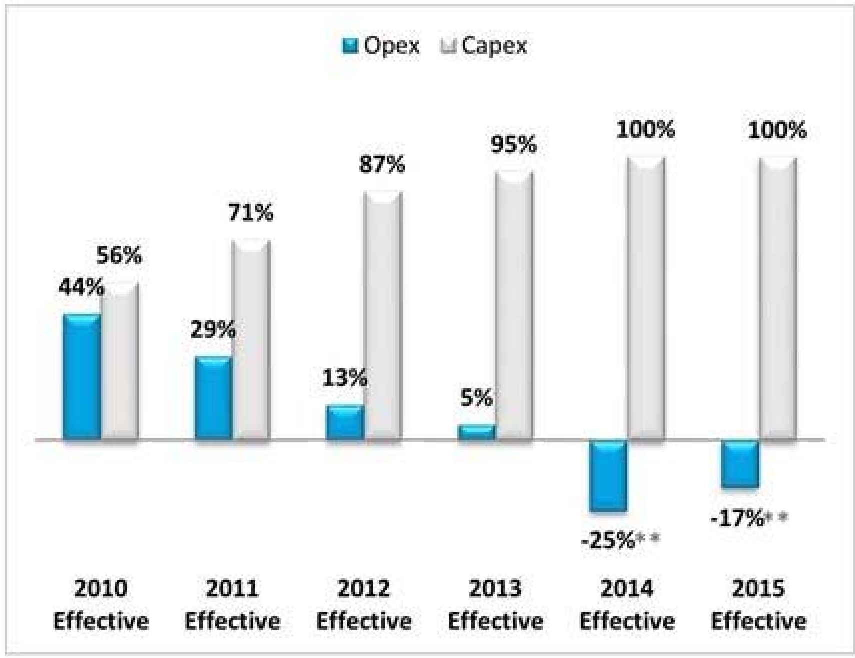
Stretch Target of 34% by 2020



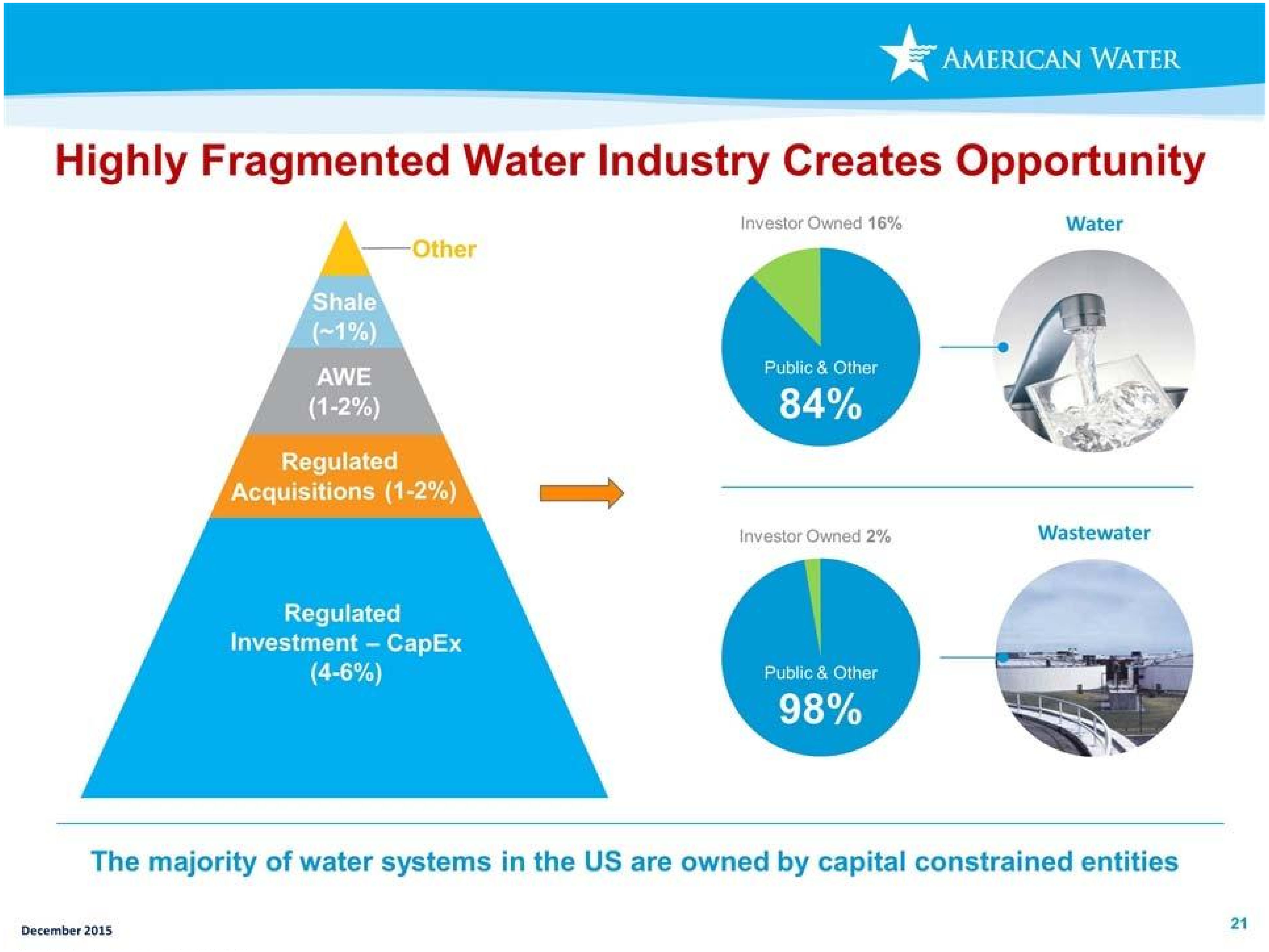
Note:
O&M Efficiency Ratio - Non GAAP Measure – See appendix for reconciliation.

Incremental Revenue Requirement*

-Increases Attributable to Opex vs. Capex-



Note:
- * Approximation in states where we reached settlement.
- ** For general rate cases effective in 2014 and 2015, the incremental revenue requirement was reduced by 25% and 17%, respectively. This amount represents the additional capital that could be invested without impact to customer bills.



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Highly Fragmented Water Industry Creates Opportunity

Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

Investor Owned **16%**

Public & Other **84%**

Water

Investor Owned **2%**

Public & Other **98%**

Wastewater

The majority of water systems in the US are owned by capital constrained entities

December 2015

AMERICAN WATER

Enabling Growth and Consolidation: Eight States

PENNSYLVANIA AMERICAN WATER

Act 11:

- HB 1294, Effective Feb 14, 2012
- Single tariff for water and wastewater
- Enables inclusion of wastewater rates into overall rates

NEW JERSEY AMERICAN WATER

Water Infrastructure Protection Act:

- S-2412, Effective Feb 5, 2015
- Streamlines the approval process for sales (no ballot question required)
- Third party appraisal for valuing water and wastewater assets

INDIANA AMERICAN WATER

Distressed Utility Acquisition Bill:

- House Enrolled Act 1319, Effective July 1, 2015
- Enables regulatory authority to approve purchase price cost differential recovery associated with troubled (distressed) utilities

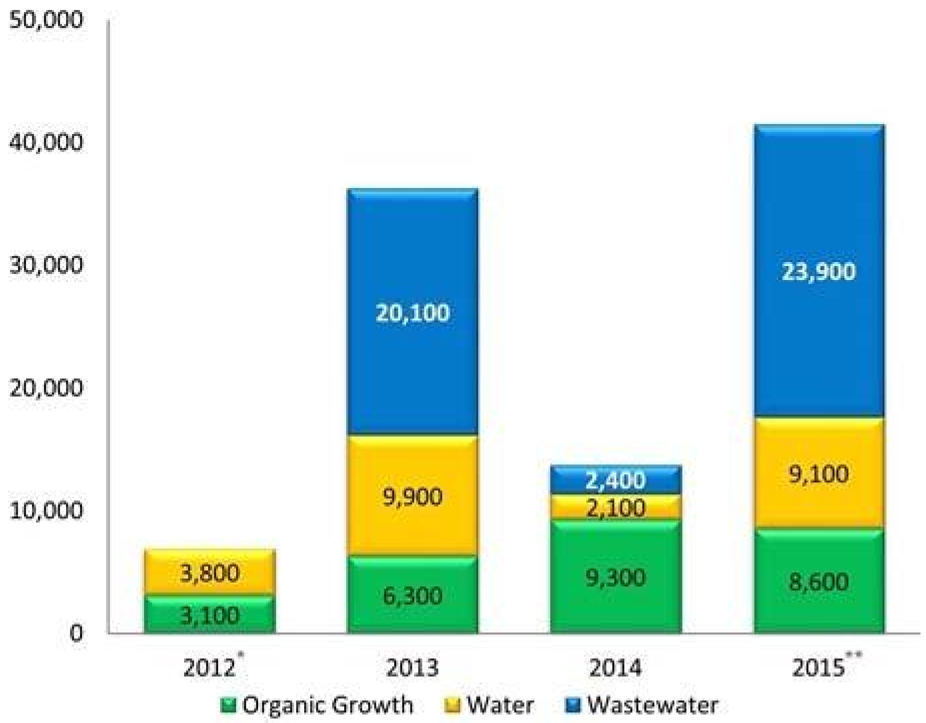
Other States With Similar Acquisition Adjustments:

CALIFORNIA AMERICAN WATER
ILLINOIS AMERICAN WATER
KENTUCKY AMERICAN WATER
MISSOURI AMERICAN WATER
VIRGINIA AMERICAN WATER

Since 2010, 5 states have added new legislation supporting industry consolidation

AMERICAN WATER

Adding Customers Through Acquisitions and Organic Growth



State	Approximate Customer Connections
Target A	31,000
Target B	20,000
Target C	19,000
Target D	12,500
Target E	12,500
Target F	11,000

Of 3.26 million customers, 3.10 million are water only

* Excludes acquisition of New York.

** 2015 Organic Growth calculated based on actual organic growth through September 30 plus historical three year trending analysis for the final quarter of 2015. 2015 acquisitions are based on transactions closed, as well as signed agreements that are pending regulatory action in 2015 and 2016.

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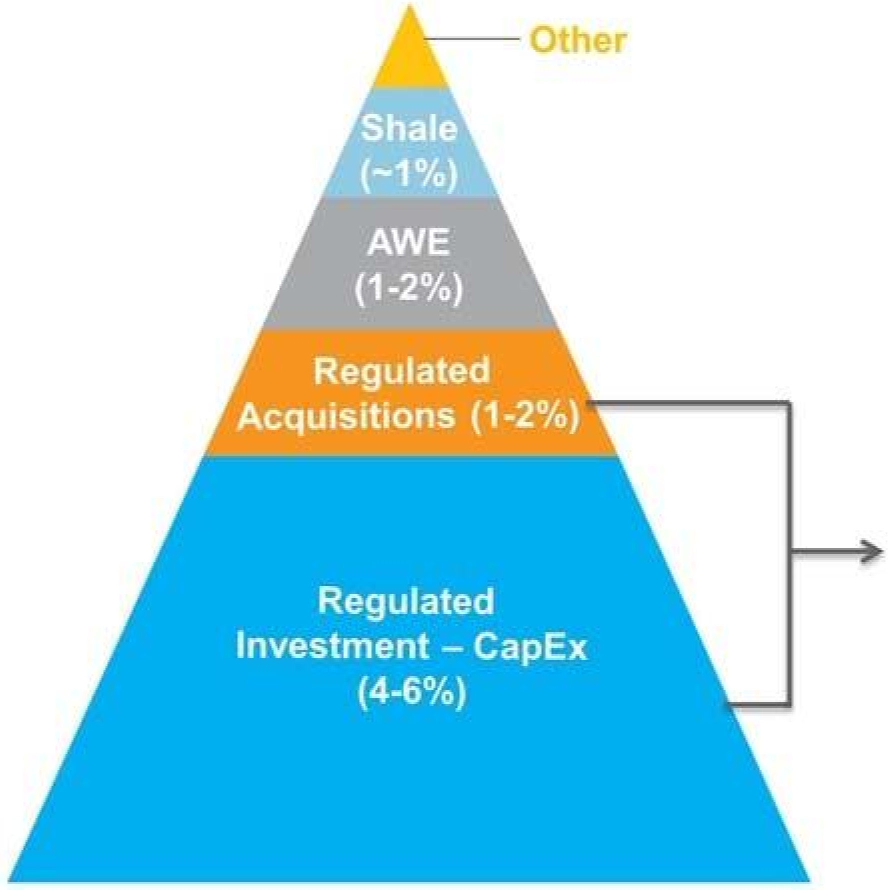
Regulated Businesses | Going Forward…..



Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

→ We will invest about $1.1B per year in our assets…
*….While keeping bill increases to ~2.6% on avg.**

- Pursue constructive regulatory mechanisms…
  ….Timely return on investment
- Leverage technology to become more efficient …
  ….O&M efficiency target of 34% by 2020

→ Pursue constructive acquisition legislation…
….Focus on wastewater

---

*Expected growth in average customer bills for five largest states of New Jersey, Pennsylvania, Indiana, Missouri and Illinois.

Sharon Cameron

President, American Water Enterprises

Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

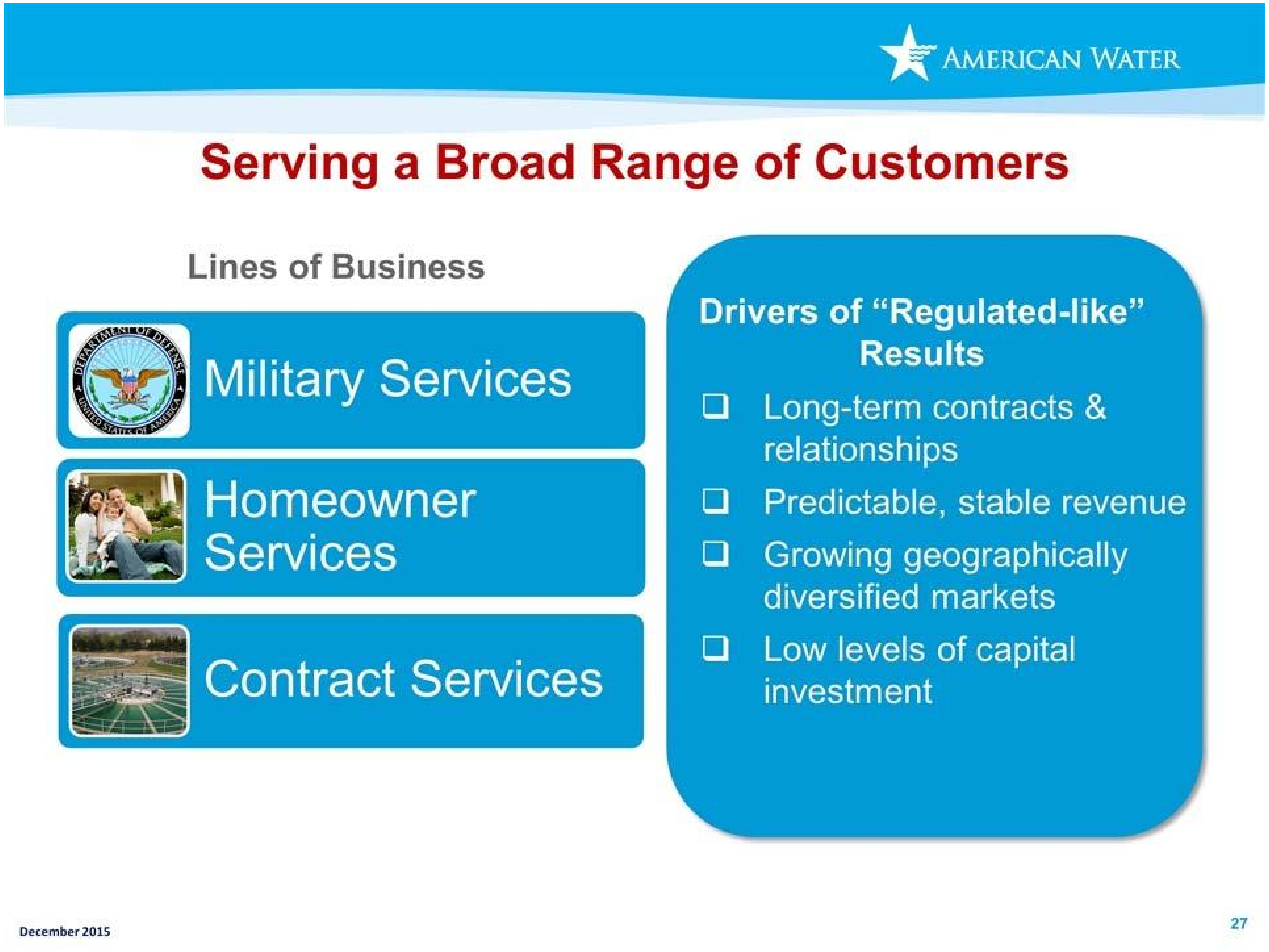
AWE Strengthens American Water

Financially:

- Accelerates growth by leveraging our core skills outside of our regulated footprint
- Regulated-like risk profile

Culturally:

- Increases customer satisfaction
- Develops new expertise that can benefit the regulated business
- Nurtures competitive-minded talent
- Builds the brand



Serving a Broad Range of Customers

Lines of Business

- Military Services
- Homeowner Services
- Contract Services

Drivers of "Regulated-like" Results

- ☐ Long-term contracts & relationships
- ☐ Predictable, stable revenue
- ☐ Growing geographically diversified markets
- ☐ Low levels of capital investment

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Military Services Group
Utility Privatization on U.S. Military Bases

Regulated Business Similarities:

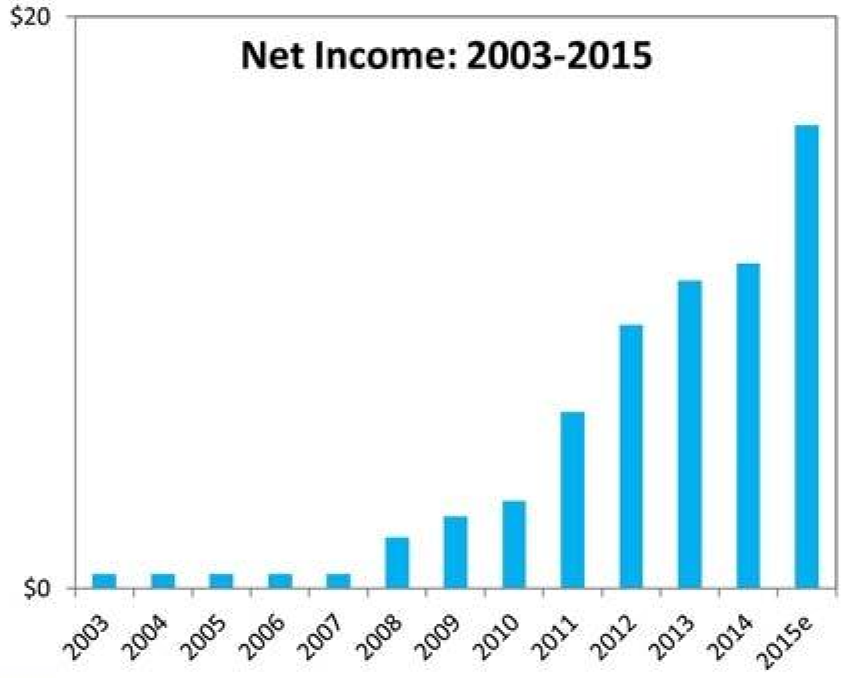
- Water & wastewater operations and capital improvements
- 50-year contract term
- Predictable revenue (not consumption based)
- Periodic price adjustments with defined rules
- Geographic diversity

DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA

Business Status:

- One customer = clear focus on their unique needs
- 12 contracts – most of any provider
- Growing - 33 new opportunities in next 10 years
- 4 AWWA Director awards for water system optimization
- 300 employees – 22% US Veterans
- Transitioning Vandenberg AFB
- Supporting customer with energy reduction projects

Military Services Historical Growth



Bases	2	3	3	4	6	8	10	10	10	9	9	11	12

Operating & Maintenance:	65%
Infrastructure Upgrades:	25%
Initial System Deficiency Correction:	10%

Current Opportunities:

- 12 bases with 38+ remaining years
- Infrastructure upgrades
- Win new bases

  33 opportunities

Emerging Opportunities:

- Expand service delivery through federal sustainability order

  reduce electricity use, conserve water, water reuse, geothermal

- Changing customer needs

  storm water, drought, industrial wastewater treatment, changes in national defense platform

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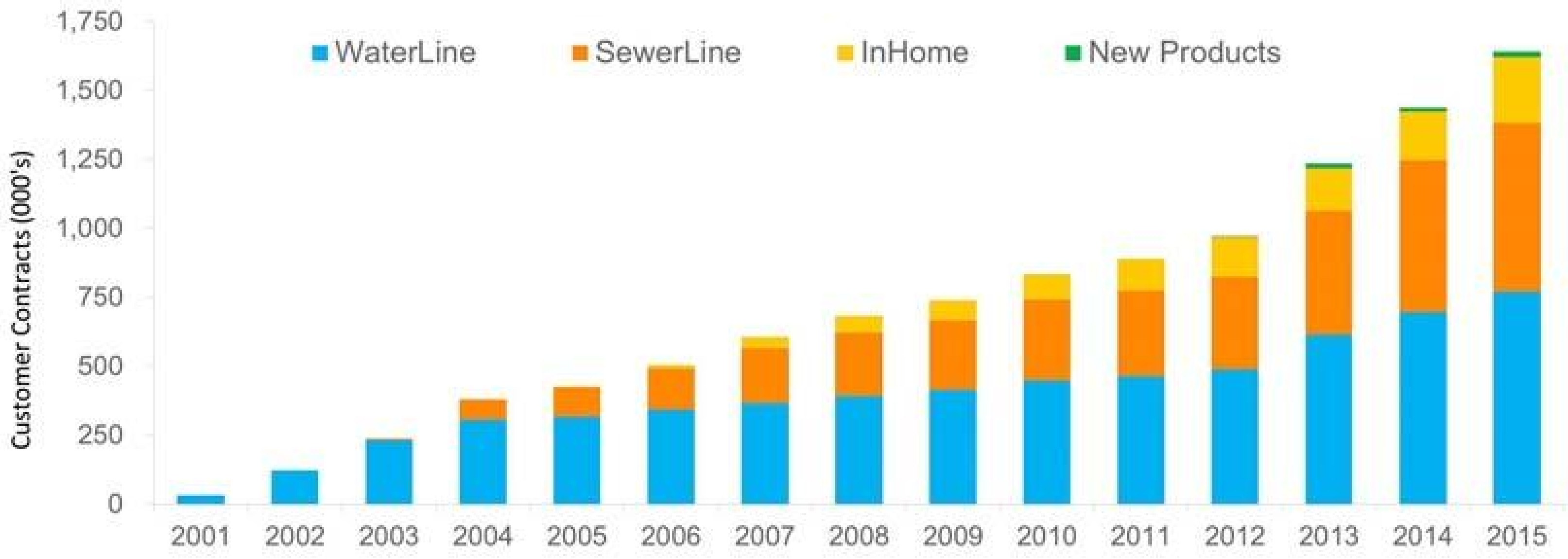
Homeowner Services

Regulated Business Similarities:

- Warranties - predictable subscription based revenue
- Geographic diversity
- Periodic price adjustments

Business Status:

- 780K customers; 1.6M contracts
- 97% customer satisfaction
- High retention rates
- "A+" Better Business Bureau rating
- 260 employees
- 43 states + Washington DC



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Homeowner Services Growth Strategy

AMERICAN WATER
Regulated Footprint

Geographic Expansion

New Products

- Interior Electric
- HVAC
- Surge
- Well & Septic

Partnerships

Municipalities/Utilities:

NYC Environmental Protection

OUC The Reliable One

Affinity Partners:

AAA

UCLA Alumni

Future Opportunity

- 75M homeowners not covered

- 2+ contracts per customer
- New customer segments

- 70 of the Top 100 cities
- Municipalities and utilities are available for partnerships

December 2015

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Contract Services Group

Solving Municipal, Commercial and Industrial Water and Wastewater Needs

Business Status

Key Municipal Clients

City of Phoenix
Seattle Public Utilities
Tampa Bay Water
Fulton County Georgia

Key Industrial Clients

Frito-Lay
JBS Swift
Coca-Cola
HEB Grocery
Hershey Chocolate

Services include:

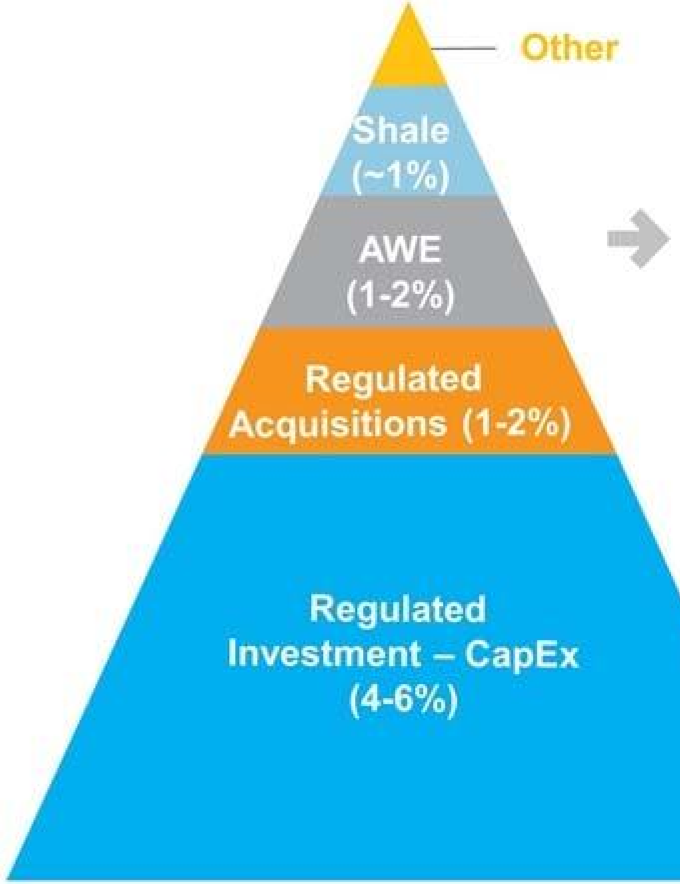
Water and wastewater O&M
Utility customer service
Wastewater reuse
Large scale seawater desalination

- 53 Contracts: 30 municipal, 10 industrial, 13 commercial
- Operate in 17 states plus Ontario
- 270 employees

Business Value

- Industry leader in commercializing emerging technologies
  - ✓ Rehabilitated, operate and maintain Tampa Bay Water desalination plant
    - largest in North America at 25MGD
  - ✓ Design, build and operate lead for the award winning Fillmore, CA reuse plant
  - ✓ Designed, built and operate reuse water system for Gillette Stadium in Foxboro, MA
  - ✓ Future opportunities: waste-to-energy, source water
- Strategic business platform to support regulated acquisitions

American Water Enterprises | Going Forward…..



- Serve our customers with executional excellence
- Continue to win new customers…
  -*New bases and new partnerships*
- Expand our products and services to further meet our customers' needs

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Break

Susan Story

President and Chief Executive Officer

Shale Introduction

Ned Wehler

CEO, Keystone Clearwater

Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

Market Overview – Decades of Exploration and Production Opportunities

- Well completion technology is water enabled and water dependent
- Appalachian Basin – a still rising resource - Utica potential and proven Marcellus
- American Water-Keystone Clearwater – ideally positioned for decades of sustained business

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Market Analysis – Short Term and Long-Term Prospects

- **Short Term – 2016 Outlook**
  - 20-30% lower completion activity
  - constrained takeaway capacity
  - drawdown of excess storage
  - El Nino pattern
  - water infrastructure build-out

- **Long Term – 2017 and Beyond**
  - 10-20% gain in completion activity
  - new takeaway capacity
  - demand increases – power burn, LNG, lowest cost gas [Appalachian-basin]
  - gas prices inching up

Water Supply, Transfer, Filtration, Re-Use & Storage; Pipeline Construction, and Transport Solutions

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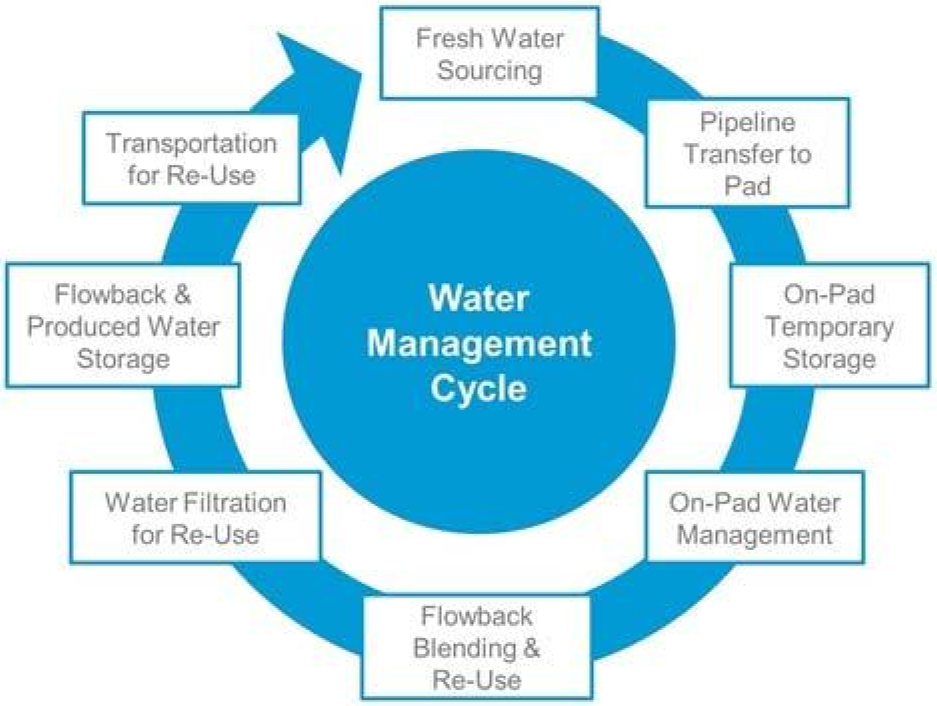
Complete Water Sourcing and Transfer Services



Services include:

- Water Sourcing
- Pipeline Construction
- Water and Equipment Hauling
- Water Transfer
- Water System Operation & Maintenance
- Water Storage Solutions
- Design/Build/Own/Operate
- Served 20 customers at July 2015 close
  - Added 7 new customers since July

Our Competitive Advantage

Core Focus		What Does It Mean for the Customer?
Total Water Management Solution	→	Vertical integration saves customers time and expense while providing one-stop shopping
Appalachian Basin Expertise	→	Senior management has developed technical and environmental knowledge and experience in the Appalachian Basin for over 30 years
Technical Knowledge to Handle Complex Projects	→	Keystone's unique regulatory and engineering experience consistently leads to on-time, on-budget projects despite complex terrain and other challenges
Low Cost Provider	→	Bundled services and premier technology allow Keystone to offer competitive pricing while maintaining strong margins
Strong Reputation	→	2015 Awards – 1) Northeast Water Management Company of the Year and 2) second straight year as Central Pennsylvania Business Journal's "Fastest Growing Company"

Strategy for Growth

Penetration in existing markets	Our customer base allows for wallet share gain and expanded services
Expansion of customer base	Pursuing 20+ identified new customers
Design, build own & operate	Capital constrained E&P producers are receptive to Keystone expanding into an ownership role of main transmission lines

Risks and Risk Mitigation

Risks

1. Revenue and margin volatility
2. Declining completion counts
3. Large integrated pipeline infrastructure deals

Mitigation Strategy

1. 5-year contracts + variable cost + customer additions
2. Design-Build-Own-Operate solutions w/contracts of 5 years plus
3. Broaden/diversify services to maintenance and treatment

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Keystone Clearwater | Going Forward…..

Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

- ✓ We will leverage synergies from our partnership with American Water…
  … Power of brand, financial strength + size, scale & reputation
- ✓ Build a predictable business model…
  … Obtain long-term contracts – supply + pipeline + storage operations
- ✓ Own and Operate Water Pipelines & Storage Facilities…
  … Lower risk and provide capital with attractive returns
- ✓ Grow Wallet Share and Add Customers…
  … Increase market share

Linda Sullivan

Senior Vice President and
Chief Financial Officer

Financial Overview

Other

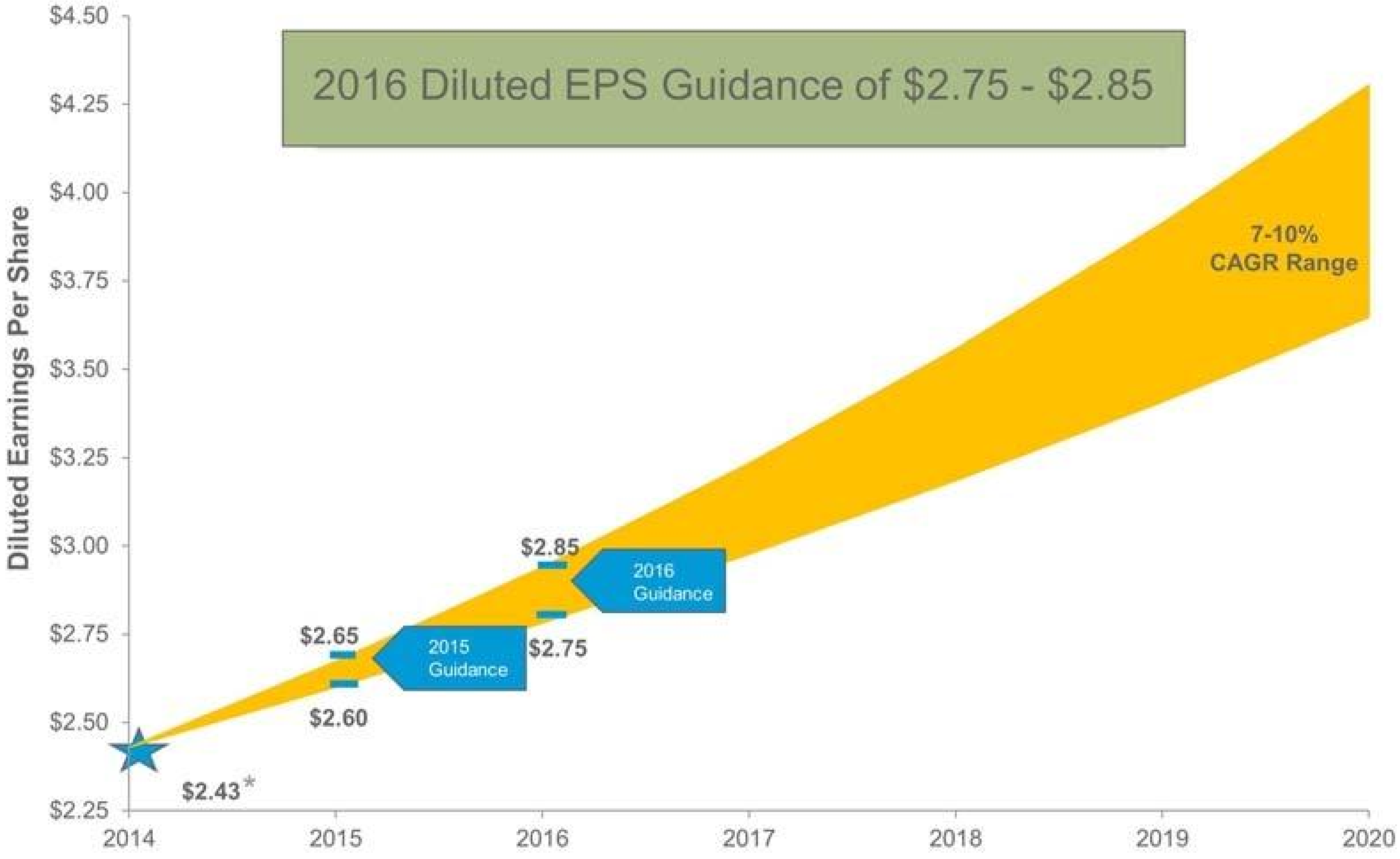
Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

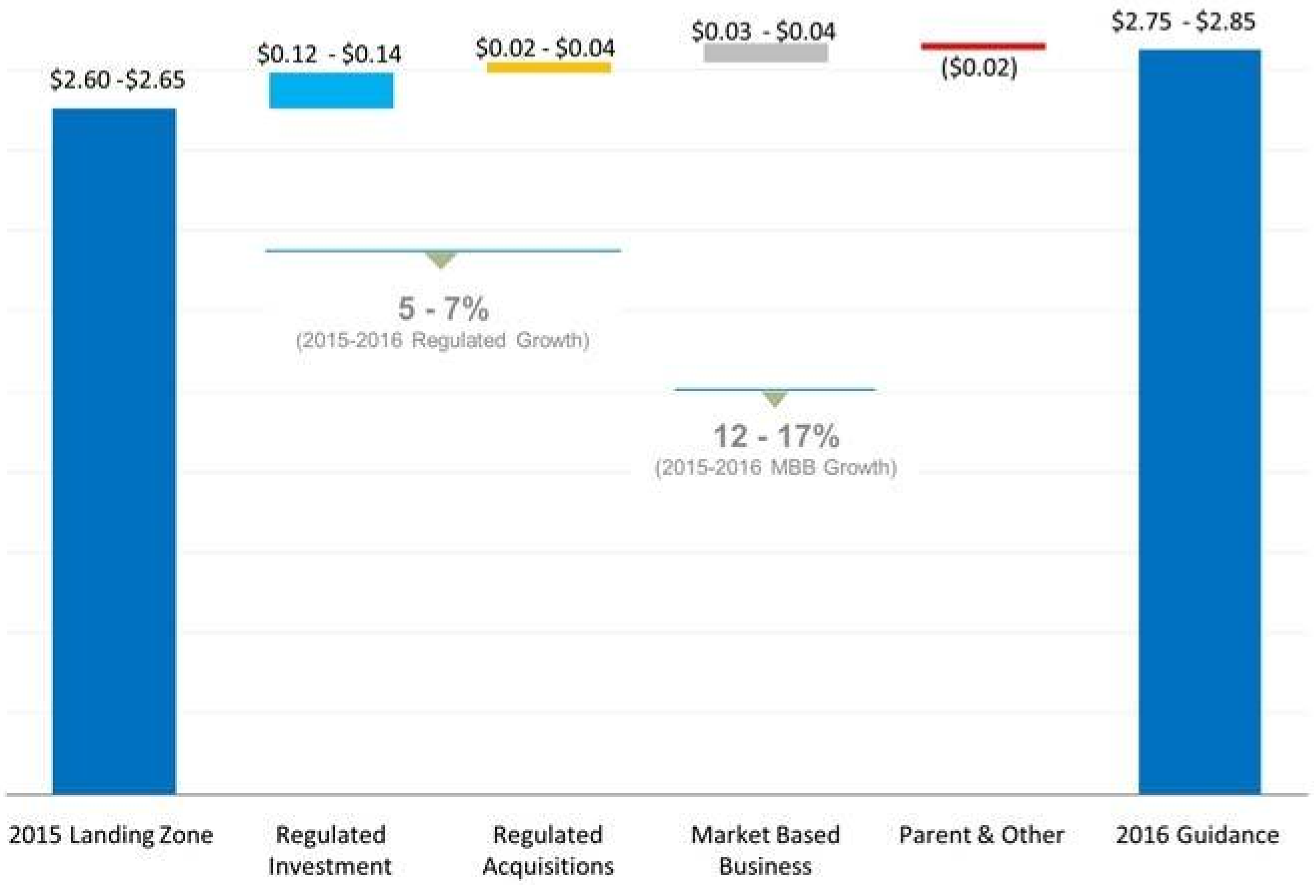
Long Term Diluted EPS Growth Goal of 7-10%



2016 Diluted EPS Guidance of $2.75 - $2.85

*Non-GAAP measure, excludes costs related to the Freedom Industries chemical spill in 2014 (see Appendix for reconciliation).

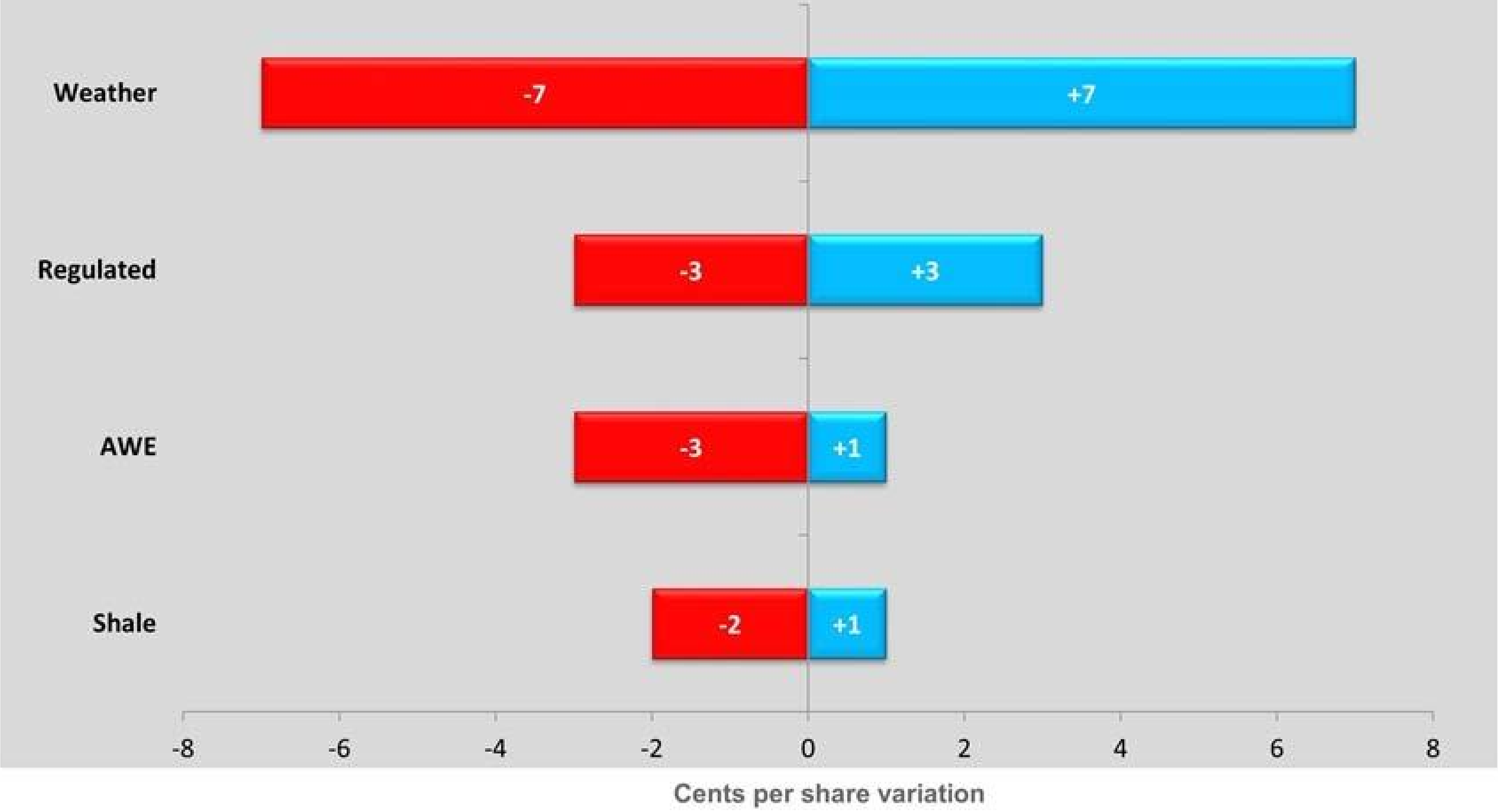
Reaffirming 2015 Guidance Range, New EPS Guidance for 2016 of $2.75 - $2.85*

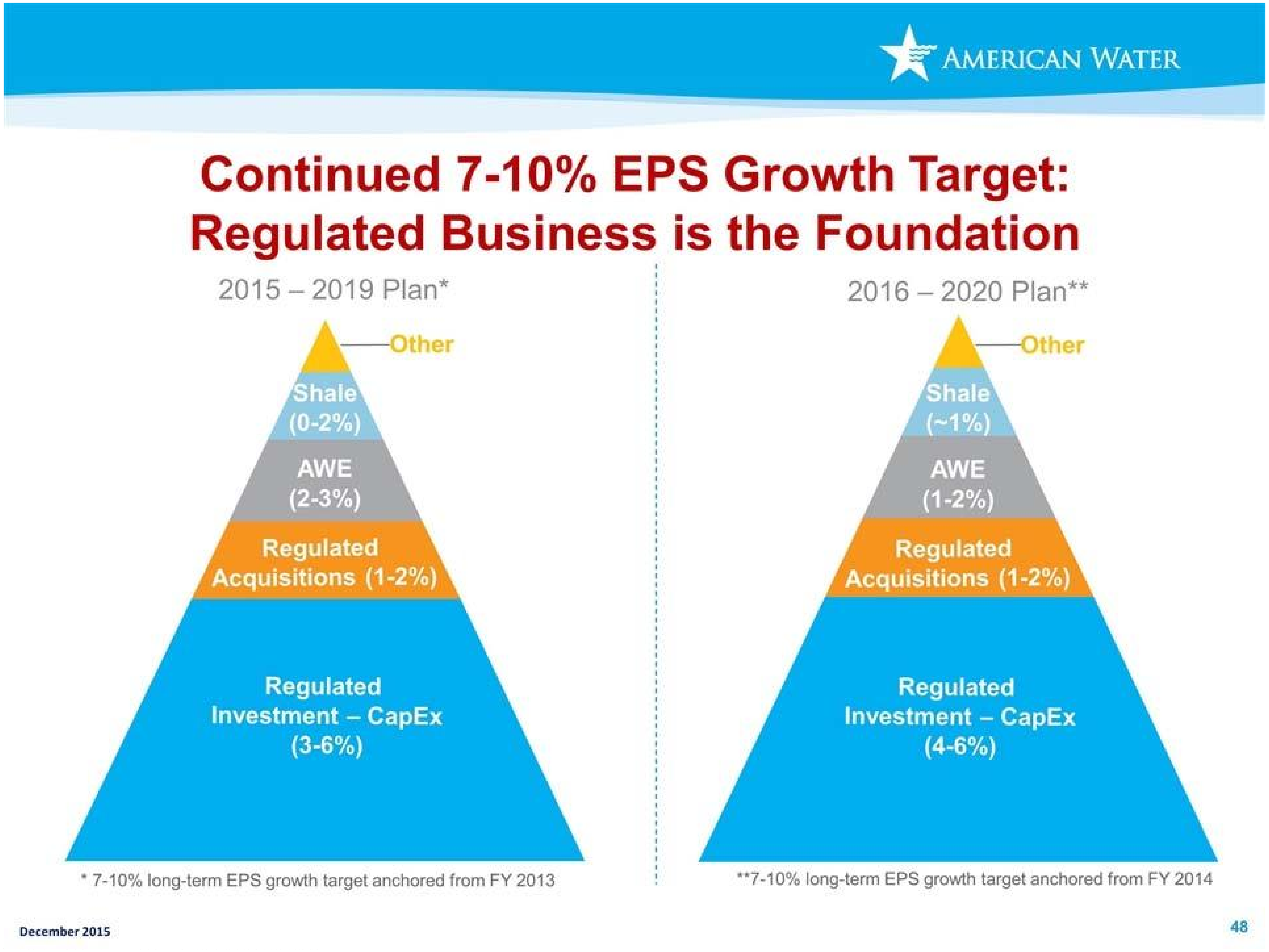


*Diluted EPS from Continuing Operations.

2016 Guidance and Major Variables

FY 2016 Initial Guidance: $2.75 - $2.85 Includes…





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Continued 7-10% EPS Growth Target: Regulated Business is the Foundation

2015 – 2019 Plan*

Other

Shale (0-2%)

AWE (2-3%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (3-6%)

* 7-10% long-term EPS growth target anchored from FY 2013

2016 – 2020 Plan**

Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

**7-10% long-term EPS growth target anchored from FY 2014

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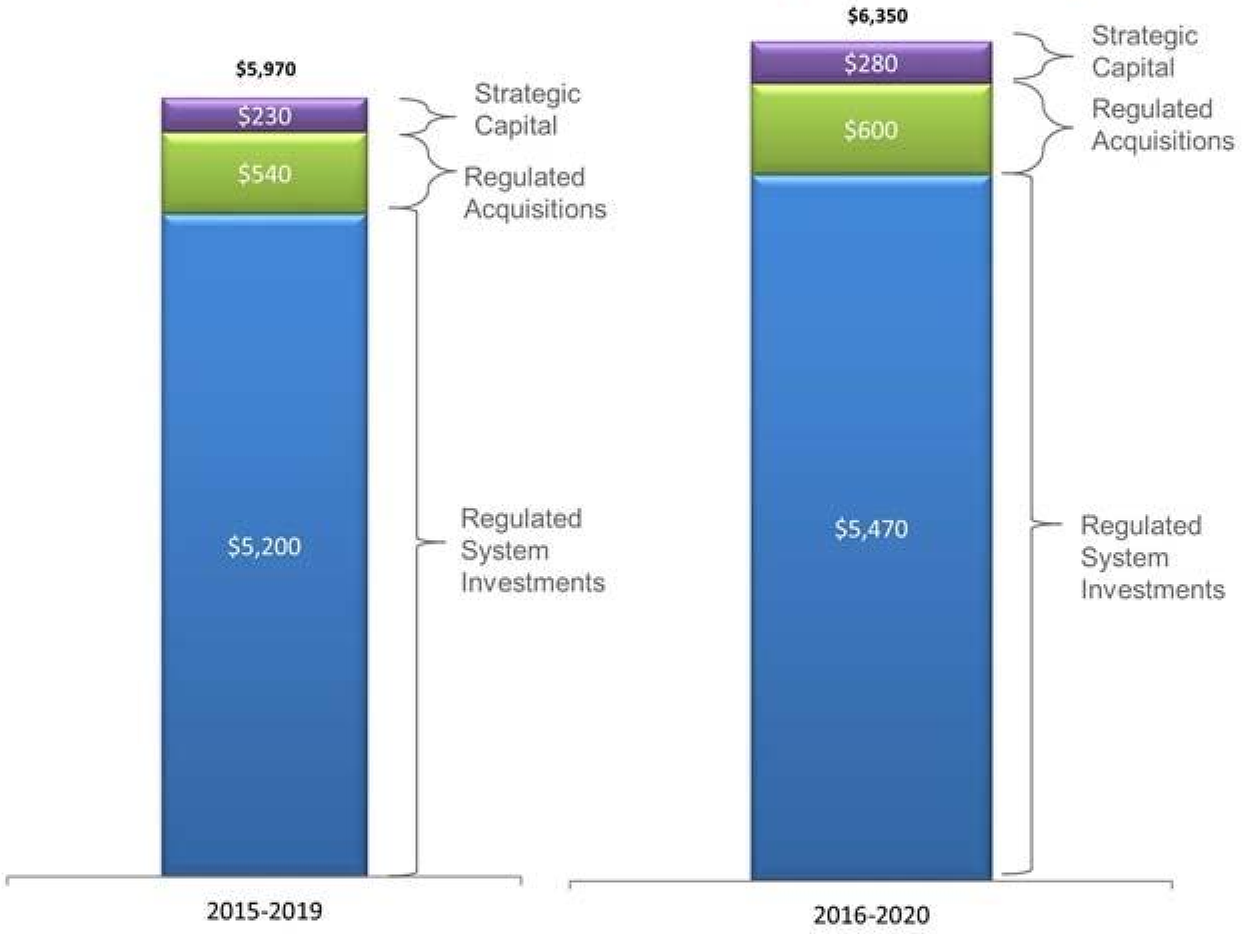
2016-2020 Capital Investment Plan: Stable and Predictable

($ in millions)



2016

Capital budget - $1.3 billion

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Rate Base Growth – Consistent, Stable Growth

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Opportunity Set: Regulated Acquisitions

Current Portfolio

3.26 million customers

2015 Activity

- Closed: 19,463
- Pending: 13,492
- Total: 32,955

32,955 customers

Total Opportunity

- In our regulated footprint
- Serving 5K – 30K connections
- 13M water & 11.5M waste water

24.5 million customers

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Opportunity Set: Military Services – Utility Privatization

Current Portfolio	Currently Pursuing	Total Opportunity
12 bases	8 bases	33 bases
$0.30 B	$0.26 - 0.38 B	$1.1 – 1.6 B
Remaining contract life net income	50-year net income	50-year net income

Typical annual net income contribution range per new base: $650K to $950K after year 2.

Represents O&M fees and estimate of infrastructure upgrades.

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Opportunity Set: Homeowner Services

Current Portfolio

1.6 million
contracts

Projections Through 2020

0.8 – 1.3 million
incremental contracts

Targeted Market Opportunity

- 75 million homes
- 2 contracts per home
- 20% penetration

30 million
contracts

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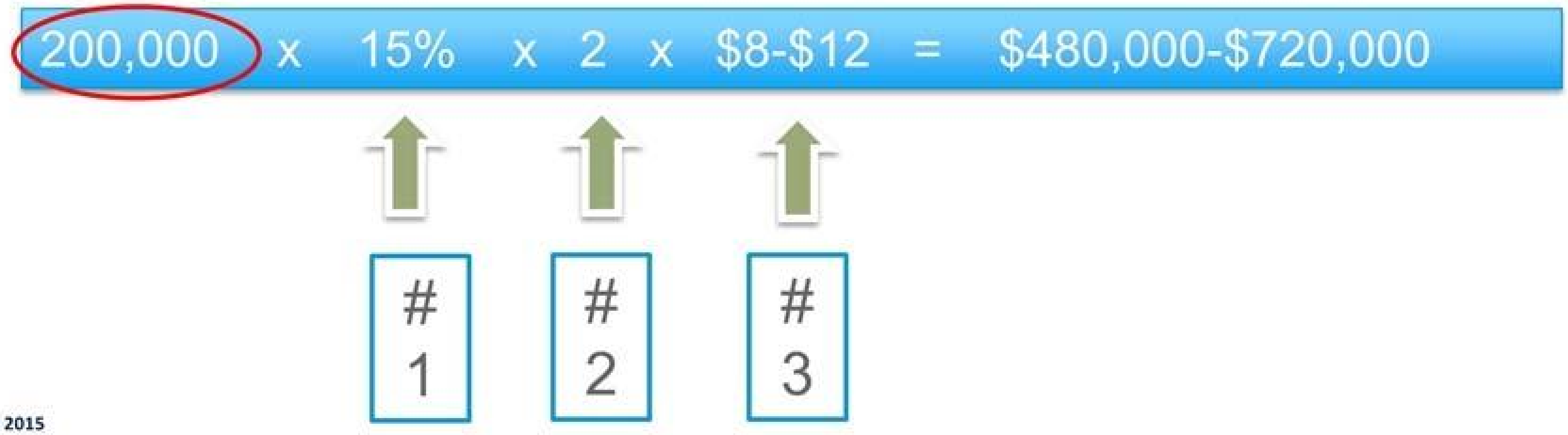
What Does Winning a New HOS Contract Mean to Net Income Growth?

1) Penetration Rate	2) # Contracts/ Homeowner	3) Net Income per Contract*
With Billing: 15%-40% Without Billing: 1%-15%	2 contracts on average	Average: $8-$12 per contract

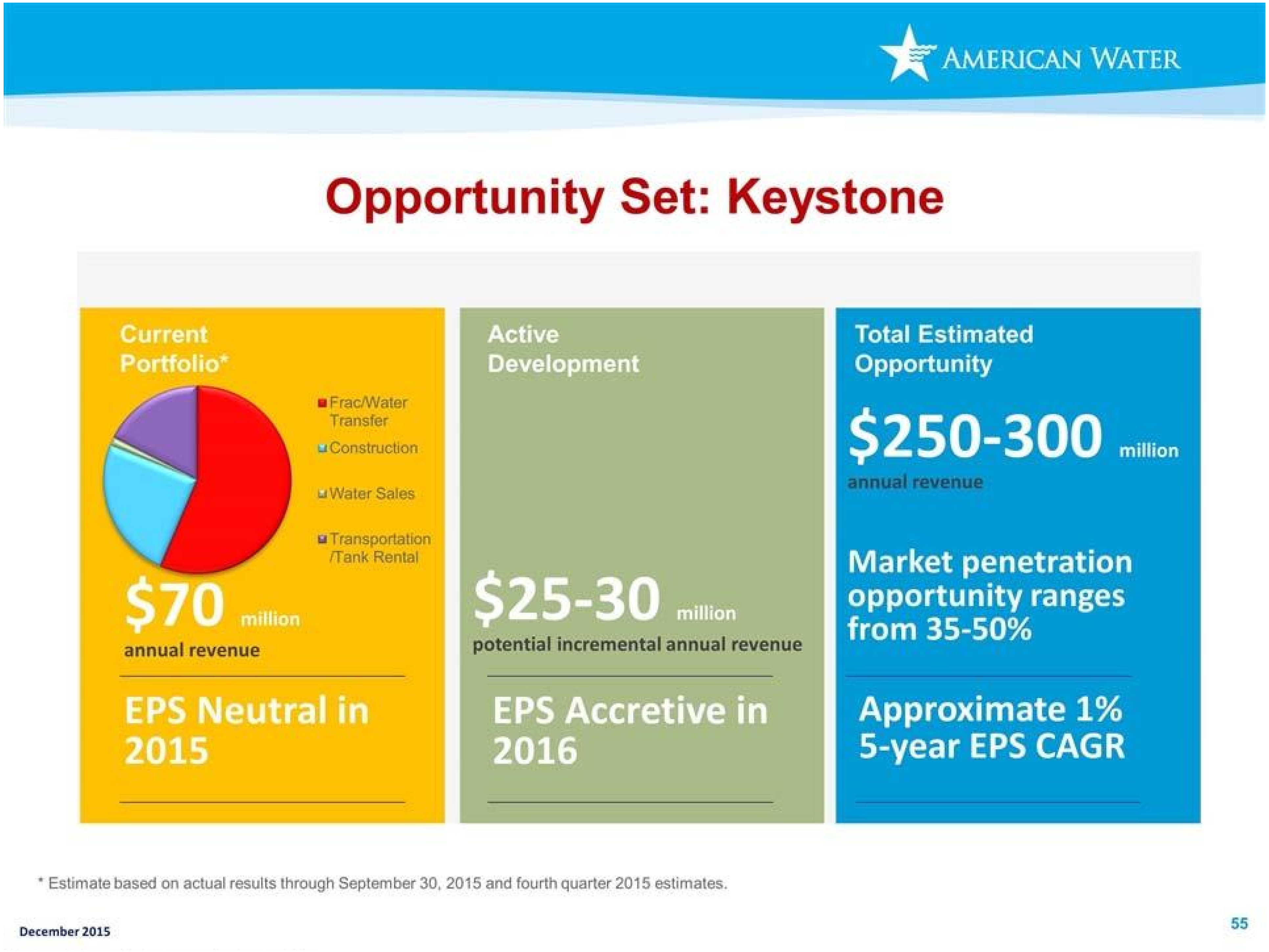
* Assumes annualized over 5 year period

Hypothetical Net Income Contribution Calculation

"American Water Resources received notice of intent by the City X Utilities Commission to be awarded an exclusive home warranty protection agreement for 200,000 homeowners."



200,000 x 15% x 2 x $8-$12 = $480,000-$720,000



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Opportunity Set: Keystone

Current Portfolio*

$70 million

annual revenue

EPS Neutral in 2015

Active Development

$25-30 million

potential incremental annual revenue

EPS Accretive in 2016

Total Estimated Opportunity

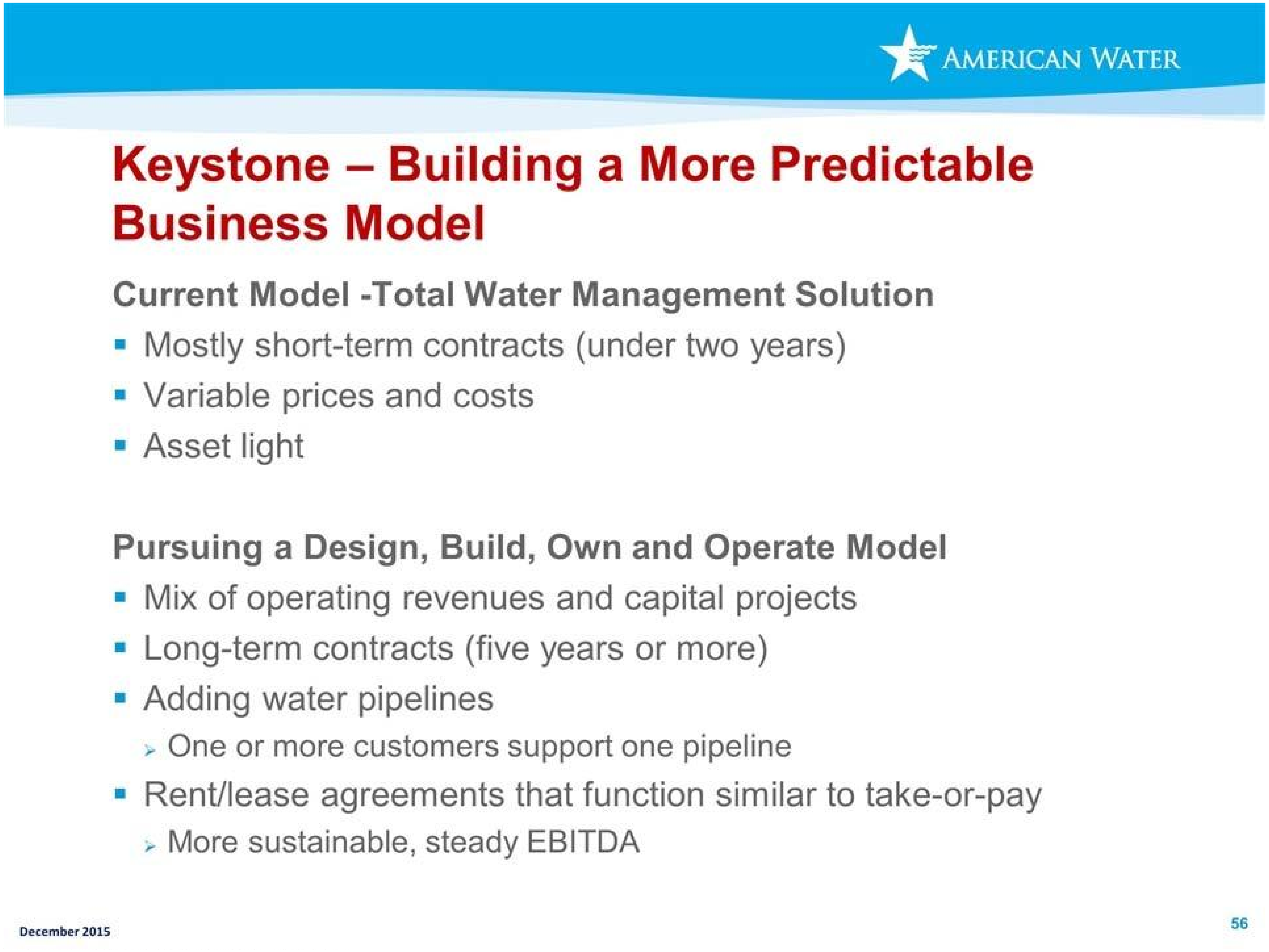
$250-300 million

annual revenue

Market penetration opportunity ranges from 35-50%

Approximate 1% 5-year EPS CAGR

* Estimate based on actual results through September 30, 2015 and fourth quarter 2015 estimates.



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Keystone – Building a More Predictable Business Model

Current Model -Total Water Management Solution

- Mostly short-term contracts (under two years)
- Variable prices and costs
- Asset light

Pursuing a Design, Build, Own and Operate Model

- Mix of operating revenues and capital projects
- Long-term contracts (five years or more)
- Adding water pipelines
  - One or more customers support one pipeline
- Rent/lease agreements that function similar to take-or-pay
  - More sustainable, steady EBITDA

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Financial Overview Continued….

Other

Shale (~1%)

AWE (1-2%)

Regulated Acquisitions (1-2%)

Regulated Investment – CapEx (4-6%)

- ✓ Excellent credit quality
- ✓ Strong balance sheet
- ✓ History of consistent dividend growth
- ✓ Superior total shareholder returns

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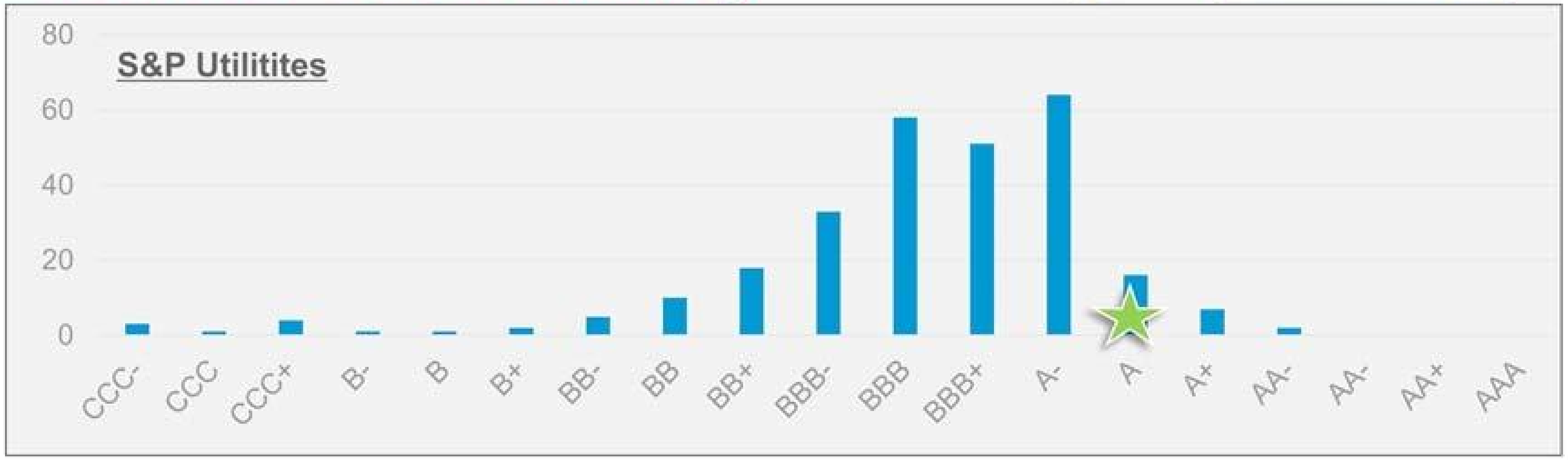
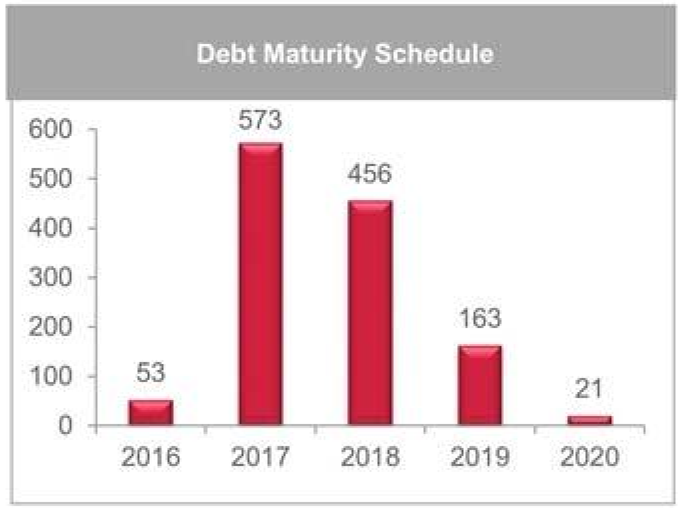
Excellent Credit Quality

★ → **AWK Rating**





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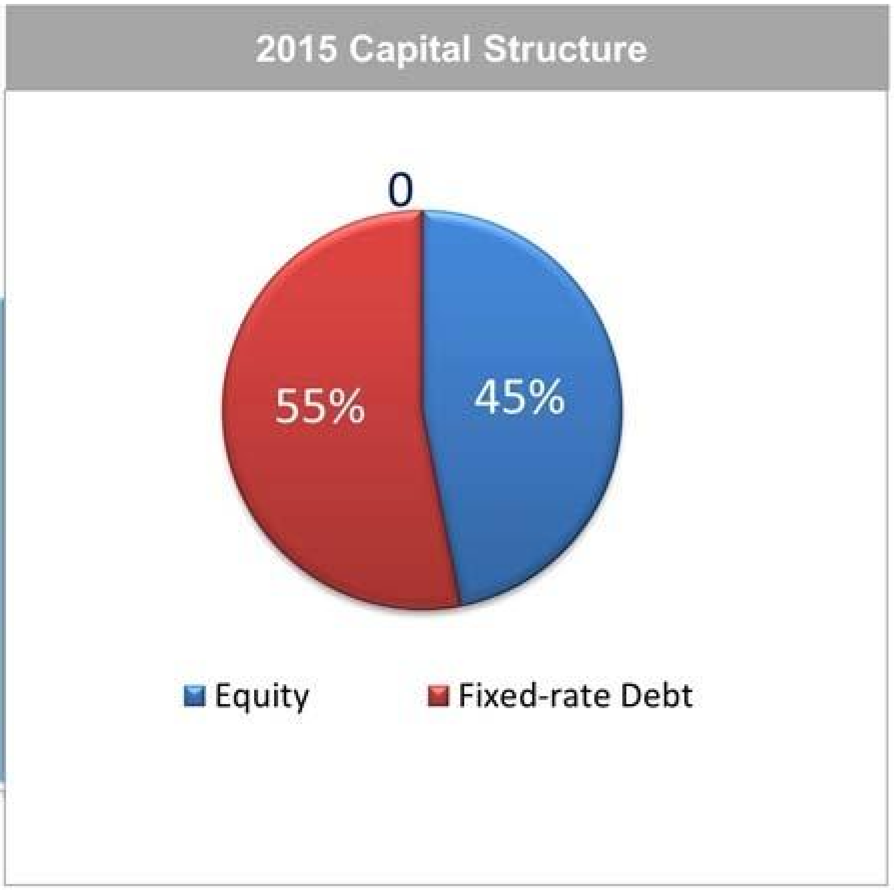
Strong Balance Sheet

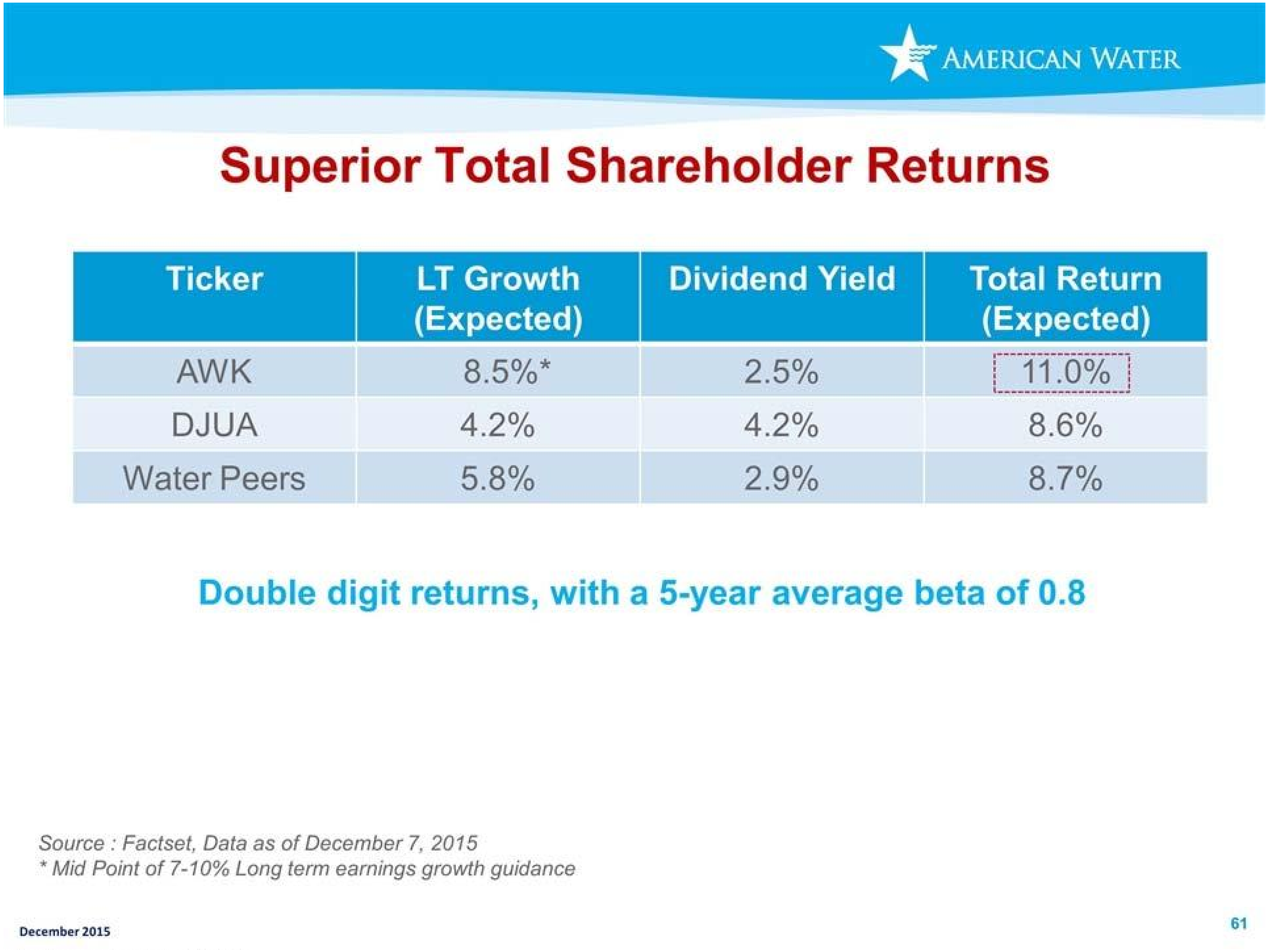


History of Consistent Dividend Growth

- Top quartile dividend growth compared to DJUA companies and water peers**

- Future dividend increases aligned with EPS growth
- Payout ratio between 50-60 percent of net income

Source: Factset: Time Period: 2010 – 2015 Dividend Paid CAGR, assumes future quarterly dividend payments in 2015 equal to current quarterly dividend.
Peer companies include: AEP , AES , AWK , CNP , D , DUK , ED , EIX , EXC , FE , NEE , NI , PCG , PEG , SO , AWR , ARTNA, CTWS , CWT , MSEX, SJW , WTR , YORW



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Superior Total Shareholder Returns

Ticker	LT Growth (Expected)	Dividend Yield	Total Return (Expected)
AWK	8.5%*	2.5%	11.0%
DJUA	4.2%	4.2%	8.6%
Water Peers	5.8%	2.9%	8.7%

Double digit returns, with a 5-year average beta of 0.8

Source : Factset, Data as of December 7, 2015
** Mid Point of 7-10% Long term earnings growth guidance*

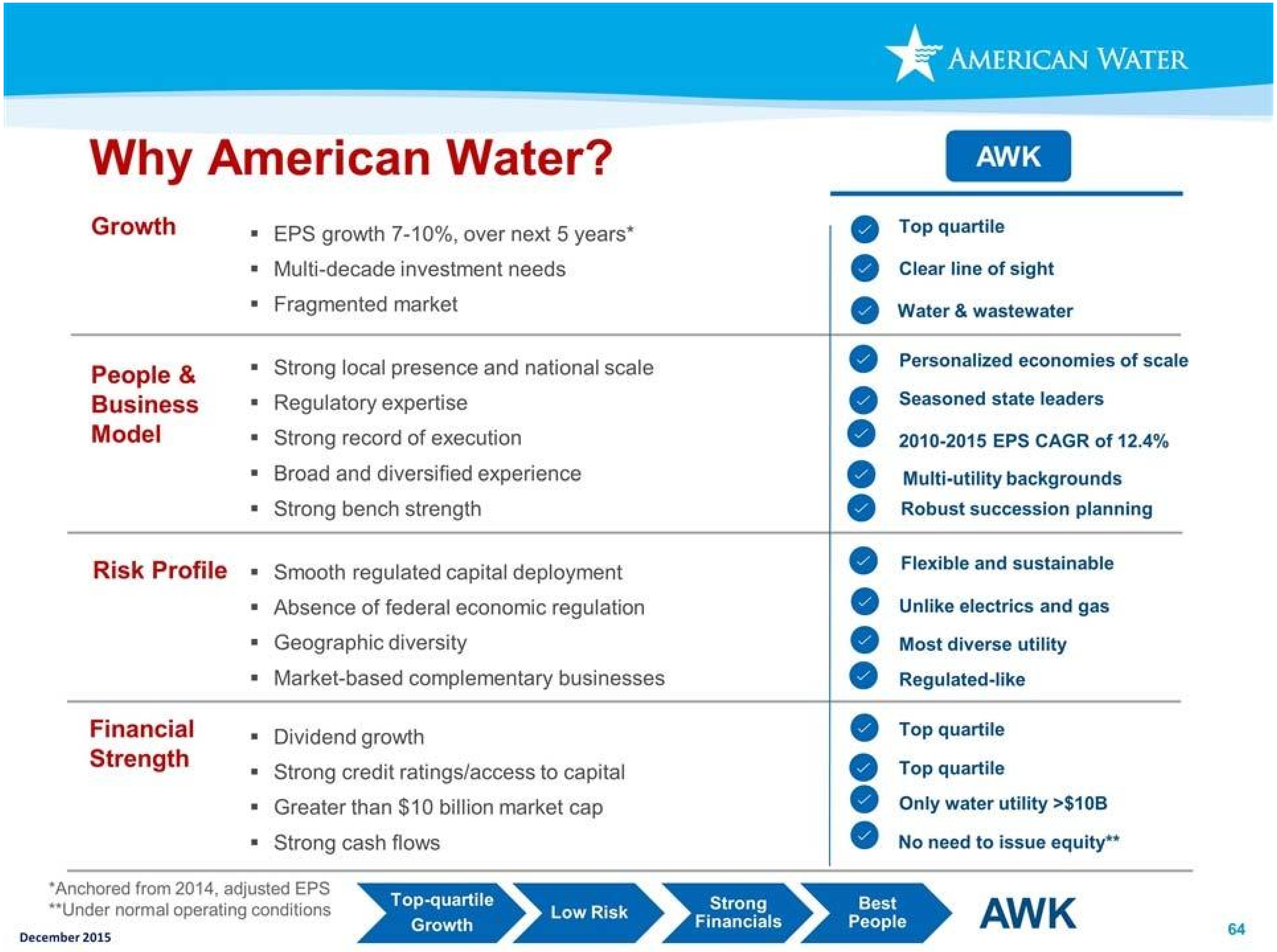
Financial Overview | Going Forward…..

Targets:

- ✓ Grow EPS long term at 7-10%…
  … Regulated investments will be the foundation
- ✓ Increase dividends in line with earnings…
  … Payout ratio between 50-60% of earnings
- ✓ Maintain our conservative risk profile…
  … Market based businesses not more than 15-20% of earnings
- ✓ Deliver leading total shareholder returns
  … Combined EPS and dividend growth

Susan Story
President and Chief Executive Officer

In Summary



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Why American Water?

		AWK
Growth	EPS growth 7-10%, over next 5 years*	✓ Top quartile
	Multi-decade investment needs	✓ Clear line of sight
	Fragmented market	✓ Water & wastewater
People & Business Model	Strong local presence and national scale	✓ Personalized economies of scale
	Regulatory expertise	✓ Seasoned state leaders
	Strong record of execution	✓ 2010-2015 EPS CAGR of 12.4%
	Broad and diversified experience	✓ Multi-utility backgrounds
	Strong bench strength	✓ Robust succession planning
Risk Profile	Smooth regulated capital deployment	✓ Flexible and sustainable
	Absence of federal economic regulation	✓ Unlike electrics and gas
	Geographic diversity	✓ Most diverse utility
	Market-based complementary businesses	✓ Regulated-like
Financial Strength	Dividend growth	✓ Top quartile
	Strong credit ratings/access to capital	✓ Top quartile
	Greater than $10 billion market cap	✓ Only water utility >$10B
	Strong cash flows	✓ No need to issue equity**

*Anchored from 2014, adjusted EPS
**Under normal operating conditions

Top-quartile Growth → Low Risk → Strong Financials → Best People → **AWK**

December 2015

Any company's only sustainable competitive advantage is its…

PEOPLE

AMERICAN WATER

Any company's only sustainable competitive advantage is its…

PEOPLE

Victor Munguia CALIFORNIA AMERICAN WATER

Any company's only sustainable competitive advantage is its…

PEOPLE

Herbie Sims

Summary

What's new

What's the same

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Appendix

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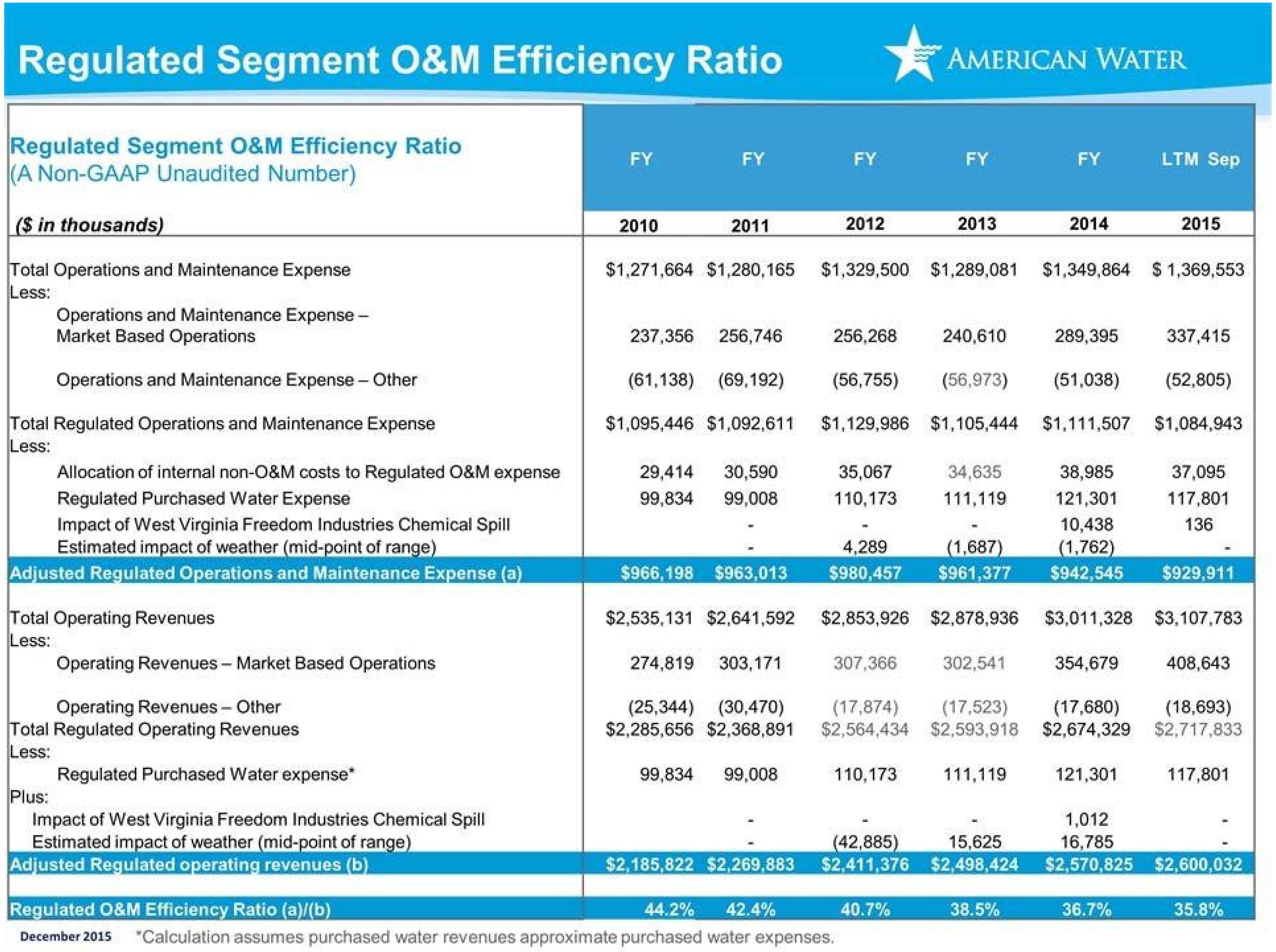
Adjusted Diluted Earnings Per Share from Continuing Operations

Diluted Earnings Per Common Share					
	2010	**2011**	**2012**	**2013**	**2014**
Net Income - GAAP	$ 1.53	$ 1.75	$ 2.01	$ 2.06	$ 2.35
Less:					
Income/(Loss) from discontinued operations	$ 0.07	$ 0.03	($ 0.09)	($ 0.01)	($ 0.04)
Income from continuing operations per diluted common share - GAAP	**$ 1.46**	**$ 1.72**	**$ 2.10**	**$ 2.07**	**$2.39**
Add:					
2013 Debt Tender Offer				$ 0.14	
After-tax impact of Freedom Industries Chemical Spill in West Virginia					$ 0.04
Adjusted diluted EPS from Continuing Operations	**$ 1.46**	**$ 1.72**	**$ 2.10**	**$ 2.21**	**$ 2.43**

December 2015



Regulated Segment O&M Efficiency Rationale

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Regulated Segment O&M Efficiency Ratio (A Non-GAAP Unaudited Number) *($ in thousands)*	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	LTM Sep 2015
Total Operations and Maintenance Expense	$1,271,664	$1,280,165	$1,329,500	$1,289,081	$1,349,864	$ 1,369,553
Less:						
Operations and Maintenance Expense – Market Based Operations	237,356	256,746	256,268	240,610	289,395	337,415
Operations and Maintenance Expense – Other	(61,138)	(69,192)	(56,755)	(56,973)	(51,038)	(52,805)
Total Regulated Operations and Maintenance Expense	$1,095,446	$1,092,611	$1,129,986	$1,105,444	$1,111,507	$1,084,943
Less:						
Allocation of internal non-O&M costs to Regulated O&M expense	29,414	30,590	35,067	34,635	38,985	37,095
Regulated Purchased Water Expense	99,834	99,008	110,173	111,119	121,301	117,801
Impact of West Virginia Freedom Industries Chemical Spill		-	-	-	10,438	136
Estimated impact of weather (mid-point of range)		-	4,289	(1,687)	(1,762)	-
Adjusted Regulated Operations and Maintenance Expense (a)	**$966,198**	**$963,013**	**$980,457**	**$961,377**	**$942,545**	**$929,911**
Total Operating Revenues	$2,535,131	$2,641,592	$2,853,926	$2,878,936	$3,011,328	$3,107,783
Less:						
Operating Revenues – Market Based Operations	274,819	303,171	307,366	302,541	354,679	408,643
Operating Revenues – Other	(25,344)	(30,470)	(17,874)	(17,523)	(17,680)	(18,693)
Total Regulated Operating Revenues	$2,285,656	$2,368,891	$2,564,434	$2,593,918	$2,674,329	$2,717,833
Less:						
Regulated Purchased Water expense*	99,834	99,008	110,173	111,119	121,301	117,801
Plus:						
Impact of West Virginia Freedom Industries Chemical Spill		-	-	-	1,012	-
Estimated impact of weather (mid-point of range)		-	(42,885)	15,625	16,785	-
Adjusted Regulated operating revenues (b)	**$2,185,822**	**$2,269,883**	**$2,411,376**	**$2,498,424**	**$2,570,825**	**$2,600,032**
Regulated O&M Efficiency Ratio (a)/(b)	**44.2%**	**42.4%**	**40.7%**	**38.5%**	**36.7%**	**35.8%**

December 2015 *Calculation assumes purchased water revenues approximate purchased water expenses.

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Section 3: EX-99.2 (EX-99.2)

Exhibit 99.2

PRESS RELEASE

AMERICAN WATER

December 14, 2015

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Maureen Duffy
Vice President, Communications
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AMERICAN WATER ANNOUNCES 2016 EARNINGS GUIDANCE

- **2016 diluted earnings per share from continuing operations estimated to be in the range of $2.75 to $2.85.**
- **2015 diluted earnings per share from continuing operations estimated to be in the range of $2.60 to $2.65.**

VOORHEES, N.J., Dec. 14, 2015 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today announced its earnings guidance for 2016 and reaffirmed its expected earnings range for the year ending December 31, 2015.

American Water estimates its 2016 earnings from continuing operations to be in the range of $2.75 to $2.85 per diluted share.

“The 2016 guidance is based on the continued execution of our strategic goals,” said Susan Story, president and CEO of American Water. “We will continue to focus on providing safe, clean, affordable and reliable water services for our customers by prudently investing much needed capital for infrastructure replacement, and by managing our costs to reduce the impact on our customers’ bills. We will grow our business strategically to create value for all of our stakeholders and achieve long-term success.”

The company reaffirmed its 2015 expected earnings from continuing operations to be in the range of $2.60 to $2.65 per diluted share, based on the company’s performance year-to-date.

“Our ability to deliver on our strategies and goals starts and ends with the outstanding dedication and performance of our employees,” said Story. “Highlights of our achievements this year include our success in growth with seven completed regulated acquisitions to date and the addition of our 12th military base contract, approximately $1.2 billion in planned capital investment into our systems, and continued gains in efficiency and cost management,” said Story.

American Water will host an Investor Day presentation and audio webcast with investors, analysts and other interested parties on Dec. 15 at The Westin New York at Times Square. In addition to Story, presentations will be made by Linda Sullivan, senior vice president and chief financial officer; Walter Lynch, president and chief operating officer of regulated operations; Sharon Cameron, president of American Water Enterprises; and Ned Wehler, CEO of Keystone Clearwater Solutions. The live webcast will be accessible to the public from 8 a.m. to approximately 12 p.m. Eastern Time, and posted on the Investor Relations page of the company's website at www.amwater.com for 30 days. Presentation slides that will be used in conjunction with the conference are also available online at http://ir.amwater.com.

The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports filed with the Securities and Exchange Commission (SEC).

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs 6,800 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, 2015 and 2016 earnings guidance and other statements regarding its future financial and operating results, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates and other matters; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; potential costs and liabilities of American Water for environmental matters associated with the operations of Keystone Clearwater Solutions; the outcome of litigation and government action including with respect to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes and tornadoes, and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its technology systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies and attacks on its computer systems; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including concession arrangements and agreements for provision of water services in shale regions for exploration and production; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on its current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; the ability to utilize its U.S. and state net operating loss carryforwards; migration of customers into or out of its service territories and the condemnation of its systems by municipalities using the power of eminent domain; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges related to American Water’s goodwill or other assets; and civil disturbances, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water’s businesses, please refer to American Water’s annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement, except as otherwise required by the federal securities laws.

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AWK 8-K 11/11/2014

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 11, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On November 11, 2014, American Water Works Company, Inc. and American Water Works Service Company, Inc. (collectively, the “Company”) entered into an agreement with Kellye L. Walker, the Company’s Senior Vice President, General Counsel and Secretary, relating to Ms. Walker’s separation from the Company. Under the agreement, Ms. Walker’s employment with the Company will terminate on January 6, 2015 and she will receive (i) a severance payment of $612,250, payable over the 12 month period following the termination of her employment, and (ii) a payment of $318,125, payable over the six month period following the termination of her employment, for consulting services Ms. Walker has agreed to provide over the six month period. Ms. Walker also will receive, over the 18 month period following the termination of her employment, reimbursement of COBRA premiums that she pays for continued health insurance coverage under the Company’s health plans, reduced by amounts she would have been required to pay as an employee of the Company. The agreement also provides that Ms. Walker will receive a payout under the Company’s 2014 Annual Incentive Plan based upon the product of her target award amount times the corporate multiplier that is approved by the Board of Directors based on the Company’s performance (which, in all material respects, is the same methodology as was used to determine her award under the 2013 Annual Incentive Plan). In addition, Ms. Walker’s benefits under the Company’s 401(k) plan and nonqualified deferred compensation plan, and entitlements under her equity awards, will be determined in accordance with their respective terms, which are not affected by the agreement. Ms. Walker will be subject to a confidentiality covenant and will provide a general release to the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 11, 2014	By: /s/ Linda G. Sullivan Linda G. Sullivan Senior Vice President and Chief Financial Officer

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AWK 8-K 11/5/2014

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 5, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On November 5, 2014, American Water Works Company, Inc. issued a press release announcing its financial results for the third quarter of 2014, ended September 30, 2014. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit	Description
99.1	Press Release, dated November 5, 2014, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: November 5, 2014

By: /s/ Kellye L. Walker
Kellye L. Walker
Senior Vice President, General Counsel and Secretary

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE

AMERICAN WATER

Nov. 5, 2014

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AMERICAN WATER REPORTS SOLID THIRD QUARTER 2014 RESULTS; ACHIEVES GROWTH

- **Operating revenues: increased 2.9 percent for the quarter to $846.2 million.**
- **Income from continuing operations: rose 4.5 percent for the quarter to $156.6 million, or $0.87 per diluted common share, despite the estimated adverse impact of cooler and milder weather during the quarter of approximately $0.04-$0.06 per diluted share. Excluding the midpoint of this impact, income from continuing operations for the quarter was $0.92 per diluted share (a non-GAAP financial measure).**
- **Growth: completed four acquisitions, adding approximately 2,200 customers to regulated footprint; following referendum victories this week, announced pending acquisitions in New Jersey, Missouri and Indiana with 19,000 customers, along with 6,000 new customers in other pending acquisitions; and was awarded its 11th military base contract.**
- **Guidance: narrowed annual adjusted earnings guidance from continuing operations (a non-GAAP financial measure) to be in the range of $2.38 to $2.44 per share, not adjusted for the adverse weather impact of approximately $0.04-$0.06 per share. Adjusted guidance does exclude the impact of the Freedom Industries chemical spill in West Virginia of approximately $0.04 per share.**

VOORHEES, N.J., Nov. 5, 2014 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today reported solid results for the third quarter of 2014.

“Despite significantly cooler temperatures across many of our service areas, we were still able to deliver solid results in the third quarter, with increases in revenues, income and EPS,” said Susan Story, president and CEO of American Water. “Additionally, we achieved continued growth in both our regulated and market-based operations, completing several acquisitions and announcing our 11th military base contract. We also had some exciting news this week, as the residents of Haddonfield, N.J., Arnold, Mo., and Russiaville, Ind., voted strongly in favor of the sale of their communities’ water and/or wastewater assets to American Water. We are honored they put their vote of confidence in our company to bring to them clean, safe, reliable and affordable water and water services, and we look forward to welcoming our newest 19,000 customers in the near future. Year to date, we have added approximately 3,700 customers on closed acquisitions and at this time, have 25,000 additional customers in pending acquisitions.”

Continuing Operations

For the three months ended Sept. 30, 2014, the company reported income from continuing operations of $156.6 million, or $0.87 per diluted common share, compared to income of $149.9 million, or $0.84 per diluted common share, in the same quarter last year. For the nine months ended Sept. 30, 2014, income from continuing operations was $335.9 million, or $1.87 per diluted common share, compared to $309.7 million, or $1.73 per diluted common share, for the same period last year.

The increase in income from continuing operations for the quarter was due to higher revenues and lower operating expenses in the Regulated Business. This increase was partially offset by cooler weather during the quarter. The increase in income from continuing operations for the nine months ended Sept. 30, 2014, was due to higher revenue, and lower interest and labor-related expense in the Regulated Business. The increase was offset by higher depreciation and costs resulting from the Freedom Industries chemical spill in West Virginia, as well as the third quarter 2014 weather impacts.

The company’s capital investments during the first nine months of 2014 totaled approximately $701.6 million. The company anticipates investing approximately $1.0 billion in 2014, with the majority allocated to upgrading its water and wastewater systems to ensure reliable service to customers.

Regulated Operations

For the three months ended Sept. 30, 2014, American Water’s Regulated Businesses’ revenues increased by $10.6 million, or 1.4 percent, as compared to the same quarter in 2013. Operating revenues increased by $75.2 million, or 3.8 percent, for the nine months ended Sept. 30, 2014, as compared to the same period in 2013. The increase in revenues was primarily due to rate authorizations and infrastructure and other surcharges, as well as incremental revenues resulting from acquisitions, most of which occurred in 2013. The increases were partially offset by reduced consumption levels due to cooler temperatures in the third quarter of 2014.

The Regulated Businesses’ operation and maintenance (O&M) expense decreased $14.3 million, or 4.9 percent, for the three months ended Sept. 30, 2014, and increased $6.4 million, or 0.8 percent, for the nine months ended Sept. 30, 2014, compared to the same periods in 2013. The decreases were mainly due to lower production and labor-related costs during the quarter, as compared to the same period in 2013. The increased costs over the nine-month period were mainly due to increased production costs, higher uncollectible expense and the impact of the Freedom Industries chemical spill in West Virginia, partially offset by lower labor-related costs.

The regulated entities showed continued improvement in the O&M efficiency ratio (a non-GAAP measure). The company’s focus on operational efficiencies assist in making these investments more affordable for customers. For the 12 months ended Sept. 30, 2014, the adjusted O&M efficiency ratio was 36.8 percent, compared to 40.1 percent for the previous 12-month period.

The company continued to make needed upgrades to its water and wastewater infrastructure to ensure reliability of service for customers. Rate adjustments and infrastructure surcharge authorizations allow recovery of that investment. On July 1, 2014, additional annualized revenue of $7.4 million in infrastructure charges became effective in New Jersey. Also in July, a settlement was reached with the Office of Ratepayer Advocates (ORA) regarding the company’s general rate case in California, which, if approved, would provide $13.6 million in additional annualized revenues for the first year of a three-year rate case cycle. The agreement is pending regulatory approval and is subject to change. Subsequent to the quarter, the company filed for $8.5 million and $2.6 million in additional revenues from infrastructure surcharges in Missouri and Tennessee, respectively.

As of Oct. 31, 2014, the company was awaiting final orders for general rate cases in Indiana and California, requesting approximately $44.5 million in total additional revenues, as adjusted for the ORA settlement agreement. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary. All annualized revenue amounts are based on current usage.

The company continued to execute its regulated growth strategy during the quarter. American Water completed four acquisitions, adding approximately 2,200 customers to its regulated footprint. On Nov. 4, voters in three communities – Haddonfield, N.J., Arnold, Mo., and Russiaville, Ind. – approved referendums for the sale of their water and/or wastewater assets to American Water. Following regulatory approval and financial close, these three acquisitions will add approximately 19,000 customers to the company’s regulated footprint. These, along with several additional pending acquisitions that are awaiting regulatory approval and/or financial close, will total approximately 25,000 customers.

Market-Based Operations

The company’s Market-Based Operations’ revenues increased by $13.4 million, or 16.1 percent, and $32.1 million, or 14.5 percent, for the three and nine months through Sept. 30, 2014, respectively. The increase was mainly due to additional revenues resulting from growth in the homeowner services business and incremental capital projects in the company’s military services group. This increase was partially offset by decreases in revenue from discontinued municipal and industrial contracts, as well as additional price redeterminations for some military contracts that occurred in 2013.

The Market-Based Businesses’ O&M expense increased $17.7 million, or 29.7 percent, and $31.8 million, or 18.4 percent, for the three and nine months ended Sept. 30, 2014, respectively. Higher costs were primarily due to an increase in operating supplies and services attributable to construction project activities for military contracts. Also included in the three and nine months ended Sept. 30, 2013 was the release of $3.8 million in loss contract reserves.

American Water's Market-Based Businesses' footprint also continued to grow. In August, the company announced that its military services group was awarded a contract for ownership, operation and maintenance of the water and the wastewater systems at Picatinny Arsenal, N.J. The award is estimated at a gross amount of approximately $297 million over a 50-year period.

"American Water is honored and privileged to provide our servicemen and -women and their families with safe, clean, reliable water and wastewater services on 11 military installations across the country for the next five decades and beyond," said Story. "Our performance in serving our military has received several national recognitions, including two Partnership for Safe Water Directors Award distinctions for distribution system optimization at Fort Leavenworth and Scott Air Force Base, and, most recently, a prestigious Federal Energy and Water Management Award for a water-energy grid balance project we participated in at Fort Meade."

The company's homeowner services business, American Water Resources, recently expanded its service offerings into New Hampshire. In addition, American Water Resources recently received notification from the Orlando Utilities Commission of its intent to award the company an exclusive home warranty protection agreement for its 260,000 customers, pending contract negotiations.

Discontinued Operations

On Oct. 31, 2014, the company entered into an agreement to sell Terratec Environmental Ltd., a Canadian-based provider of residuals management services that is part of the Market-Based Operations segment. This transaction is a result of the company's decision to exit the Class B biosolids business so it can focus on the Class A biosolids business. The loss on sale and results of operations of the company have been classified as discontinued operations and represent a loss from discontinued operations of $0.02 and $0.03 per diluted share for the three- and nine-month periods ended Sept. 30, 2014, respectively.

Quarterly Dividend

On Sept. 19, 2014, American Water's Board of Directors declared a quarterly cash dividend payment of $0.31 per share, payable on Dec. 1, 2014, to all shareholders of record as of Nov. 10, 2014.

On July 30, 2014, American Water's Board of Directors declared a quarterly cash dividend payment of $0.31 per share, which was paid on Sept. 2, 2014, to all shareholders of record as of Aug. 11, 2014.

2014 Earnings Guidance

American Water has narrowed annual adjusted earnings guidance from continuing operations (a non-GAAP financial measure) to be in the range of $2.38 to $2.44 per share, not adjusted for the adverse weather impact of approximately $0.04-$0.06 per share. Adjusted guidance does exclude the impact of the Freedom Industries chemical spill in West Virginia of approximately $0.04 per share. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports filed with the SEC.

Non-GAAP Financial Measures

This press release includes a presentation adjusted income from continuing operations and adjusted earnings per share (EPS) from continuing operations. These items are derived from American Water's consolidated financial information but are not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted income from continuing operations and adjusted EPS from continuing operations are defined, respectively, as GAAP income from continuing operations and GAAP diluted earnings per common share from continuing operations excluding the one-time impact of the Freedom Industries chemical spill in West Virginia and the estimated impact of weather in the third quarter of 2014. These items constitute "non-GAAP financial measures" under Securities and Exchange Commission (SEC) rules. These non-GAAP financial measures supplement the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water's baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company's performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses, the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill as well as the estimated impact of weather in the third quarter of 2014. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). The item constitutes a "non-GAAP financial measure" under Securities and Exchange Commission (SEC) rules. This non-GAAP financial measure supplements the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill and weather during the quarter, which involve items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below are tables that reconcile the non-GAAP financial measures to the most directly comparable GAAP financial measures.

Third Quarter 2014 Earnings Conference Call

The third quarter 2014 earnings conference call will take place on Thursday, Nov. 6, 2014, at 9 a.m. Eastern Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company's website at www.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through Nov. 14, 2014, by dialing 1-412-317-0088 for U.S. and international callers. The access code for replay is 10053559. The online archive of the webcast will be available through Dec. 6, 2014, by accessing the Investor Relations page of the company's website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs approximately 6,600 dedicated professionals who provide drinking water, wastewater and other related services to an estimated 14 million people in more than 40 states and parts of Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, 2014 earnings guidance and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action related to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal, intercoastal flooding and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including, concession arrangements and agreements for the provision of water services to facilitate hydraulic fracking in shale regions; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on the company's current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; migration of customers into or out of its service territories; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement.

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Income (Unaudited)
In thousands except per share data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Operating revenues	$ 846,169	$ 822,190	$ 2,279,950	$ 2,172,694
Operating expenses				
Operation and maintenance	341,348	337,674	1,004,377	962,853
Depreciation and amortization	106,789	102,495	318,398	303,002
General taxes	60,807	58,087	178,276	175,789
(Gain) loss on asset dispositions and purchases	(60)	768	(616)	529
Total operating expenses, net	508,884	499,024	1,500,435	1,442,173
Operating income	337,285	323,166	779,515	730,521
Other income (expenses)				
Interest, net	(75,445)	(77,389)	(222,673)	(233,260)
Allowance for other funds used during construction	2,805	2,800	7,064	9,895
Allowance for borrowed funds used during construction	1,570	1,679	4,324	5,102
Amortization of debt expense	(1,669)	(1,524)	(4,971)	(4,729)
Other, net	(733)	(449)	(2,591)	(1,481)
Total other income (expenses)	(73,472)	(74,883)	(218,847)	(224,473)
Income before income taxes	263,813	248,283	560,668	506,048
Provision for income taxes	107,205	98,374	224,773	196,325
Income from continuing operations	156,608	149,909	335,895	309,723
Loss from discontinued operations, net of tax	(4,423)	756	(6,288)	(152)
Net income	$ 152,185	$ 150,665	$ 329,607	$ 309,571
Basic earnings per share				
Income from continuing operations	$ 0.87	$ 0.84	$ 1.88	$ 1.74
Loss from discontinued operations, net of tax	$ (0.02)	$ 0.00	$ (0.04)	$ (0.00)
Basic earnings per share	$ 0.85	$ 0.85	$ 1.84	$ 1.74
Diluted earnings per share				
Income from continuing operations	$ 0.87	$ 0.84	$ 1.87	$ 1.73
Loss from discontinued operations, net of tax	$ (0.02)	$ 0.00	$ (0.03)	$ (0.00)
Diluted earnings per share (a)	$ 0.85	$ 0.84	$ 1.83	$ 1.73
Average common shares outstanding during the period				
Basic	178,992	177,965	178,800	177,671
Diluted	179,948	179,154	179,723	178,906
Dividends declared per common share	$ 0.62	$ 0.56	$ 0.93	$ 0.84

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

AMERICAN WATER REPORTS 2014 THIRD QUARTER RESULTS

American Water Works Company, Inc. and Subsidiary Companies

Condensed Consolidated Balance Sheet Information (Unaudited)
In thousands

	September 30, 2014	December 31, 2013
Cash and cash equivalents	$ 74,128	$ 26,964
Other current assets	676,577	537,969
Total property, plant and equipment	12,799,358	12,388,354
Total regulatory and other long-term assets	2,159,328	2,127,981
Assets of discontinued operations	6,256	7,761
Total Assets	$ 15,715,647	$ 15,089,029
Short-term debt	$ 313,979	$ 630,307
Current portion of long-term debt	55,581	14,174
Other current liabilities	687,708	587,228
Long-term debt	5,556,606	5,230,058
Total regulatory and other long-term liabilities	3,113,233	2,852,930
Contributions in aid of construction	1,067,221	1,042,704
Liabilities of discontinued operations	1,667	3,824
Total stockholders' equity	4,919,652	4,727,804
Total Capitalization and Liabilities	$ 15,715,647	$ 15,089,029

AMERICAN WATER REPORTS 2014 THIRD QUARTER RESULTS

Adjusted Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	Last Twelve Months Ended September 30, 2014	Last Twelve Months Ended September 30, 2013
Total Operation and Maintenance Expenses	$ 1,330,605	$ 1,315,039
Less:		
Operation and maintenance expenses- Market-Based Operations	272,386	236,139
Operation and maintenance expenses- Other	(53,606)	(57,216)
Total Regulated Operation and Maintenance Expense	1,111,825	1,136,116
Less:		
Regulated purchased water expense	119,692	110,450
Allocation of non-Operation and maintenance expense	37,975	35,034
Impact of West Virginia Freedom Industries Chemical Spill	10,302	0
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)
Adjusted Regulated Operation and Maintenance Expenses (a)	$ 945,618	$ 992,319
Total Operating Revenues	$ 2,986,192	$ 2,848,036
Less:		
Operating revenues - Market-Based Operations	334,647	297,255
Operating revenues - Other	(17,594)	(17,660)
Total Regulated operating revenues	2,669,139	2,568,441
Less:		
Regulated purchased water expense*	119,692	110,450
Plus:		
Impact of West Virginia Freedom Industries Chemical Spill	1,012	0
Estimated impact of weather (mid-point of range)	16,785	15,625
Adjusted Regulated operating revenues (b)	$ 2,567,244	$ 2,473,616
Adjusted Regulated Operations and Maintenance Efficiency Ratio (a)/(b)	36.8%	40.1%

* Calculation assumes purchased water revenues approximate purchased water expenses.

Adjusted income from continuing operations and income from continuing operations per diluted common share (A Non-GAAP, unaudited measure)

In thousands except per share data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Income from continuing operations	$ 156,608	$ 149,909	$ 335,895	$ 309,723
Add:				
After-tax impact of West Virginia Freedom Industries Chemical Spill	290	0	6,822	0
After-tax impact of weather (mid-point of range)	9,000	5,415	9,000	8,310
Adjusted income from continuing operations	$ 165,898	$ 155,324	$ 351,717	$ 318,033
Income from continuing operations per diluted common share (a)	$ 0.87	$ 0.84	$ 1.87	$ 1.73
Add:				
After-tax impact of West Virginia Freedom Industries Chemical Spill	0.00	0.00	0.04	0.00
After-tax impact of weather (mid-point of range)	0.05	0.03	0.05	0.05
Adjusted income from continuing operations per diluted common share	$ 0.92	$ 0.87	$ 1.96	$ 1.78

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

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AWK 8-K 11/4/2015

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 4, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On November 4, 2015, American Water Works Company, Inc. issued a press release announcing its financial results for the third quarter ended September 30, 2015. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information furnished in this Current Report, including Exhibit 99.1, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibit has been furnished herewith:

Exhibit	Description
99.1	Press Release, dated November 4, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: November 4, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
99.1*	Press Release, dated November 4, 2015, issued by American Water Works Company, Inc.

* Furnished herewith.

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE

AMERICAN WATER

Nov. 4, 2015

Gregory Panagos
Vice President, Investor Relations
856-566-4005
gregory.panagos@amwater.com

Maureen Duffy
Vice President, Communications
856-309-4546
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AMERICAN WATER REPORTS STRONG THIRD QUARTER 2015 RESULTS

- **Diluted earnings per share from continuing operations increased 10.3 percent over the third quarter 2014.**
- **Revenue increased 5.9 percent to $896.2 million compared to the same period last year.**
- **Company narrows 2015 earnings guidance from continuing operations to a range of $2.60 to $2.65 per diluted share.**

VOORHEES, N.J., Nov. 4, 2015 – American Water Works Company, Inc. (NYSE: AWK) today reported results for the three months ended Sept. 30, 2015.

“We continued to execute our strategies during the first nine months of 2015,” said Susan Story, president and CEO of American Water. “We invested in our water and wastewater systems to provide safe, clean and reliable service to our customers. We balanced that investment with improved efficiencies to keep our services affordable, and increased our customer base through regulated acquisitions and organic growth.

“In our Market-Based Businesses, we added our 12th military installation, continued to grow our homeowner services’ business and completed our acquisition of Keystone Clearwater Solutions, a water services provider to the Marcellus and Utica Shale in the Appalachian basin.

“These efforts resulted in increases to earnings per share and revenues for the third quarter, and demonstrate our progress toward achieving our long-term plan of growing earnings per share by seven to 10 percent through 2019,” said Story.

For the third quarter 2015, the company reported income from continuing operations of $173.9 million, or 96 cents per diluted common share (“diluted share”), compared to 87 cents per diluted share in the third quarter of 2014, a 10.3 percent increase. For the first nine months of 2015, the company reported income from continuing operations of $377.0 million, or $2.09 per diluted share, compared to $1.87 per diluted share for the first nine months of 2014, an 11.8 percent increase. Diluted earnings per share (EPS) from continuing operations, excluding costs related to the Freedom

Industries chemical spill in 2014 (a non-GAAP financial measure), increased 9.4 percent compared to $1.91 for the nine months ended Sept. 30, 2014.

The Regulated Businesses continue to be the major contributor to earnings and experienced strong growth for the quarter and year-to-date through September, driven by infrastructure investment coupled with lower operating and maintenance expenses from the company's continued focus on operational efficiencies. The Market-Based Businesses also reported higher earnings growth for the quarter and year-to-date through September as it continued growth through its Military Services and Homeowner Services lines of business.

Net income including discontinued operations was 96 cents per diluted share for the quarter and $2.09 per diluted share year-to-date Sept. 30, 2015, compared to 85 cents per diluted share for the third quarter 2014, and $1.83 per diluted share for the nine months ended Sept. 30, 2014. Revenues were $896.2 million for the third quarter 2015, and $2,376.4 million year-to-date Sept. 30, 2015, compared to $846.2 million for the third quarter 2014, and $2,280.0 million for the nine months ended Sept. 30, 2014.

Year-to-date Sept. 30, 2015, the company made capital investments of approximately $970 million, including $793 million to replace and improve infrastructure for continued reliable service to customers, $44 million for regulated acquisitions and $133 million to acquire Keystone

Clearwater Solutions (“Keystone”). American Water plans to invest $1.3 to $1.4 billion in 2015, with almost $1.2 billion of this total to improve water and wastewater systems.

Regulated Businesses

For the third quarter, revenues for the Regulated Businesses segment totaled $780.7 million, an increase of $27.0 million, or 3.6 percent, compared to the same period last year. For the nine months ended Sept. 30, 2015, revenues totaled $2.1 billion, an increase of $43.5 million, or 2.1 percent, compared to the same period last year. The increases for both periods were primarily due to mild weather in 2014, as well as 2015 rate increases and surcharges in recognition of system improvements to better serve customers.

The operations and maintenance (O&M) expense decreased $1.2 million, or 0.4 percent, for the quarter and $26.6 million, or 3.2 percent, for the nine months ended Sept. 30, 2015 compared to same periods last year. The decrease for nine months ended Sept. 30, 2015, was mainly due to incremental costs in 2014 associated with the Freedom Industries chemical spill in West Virginia, and the company’s continued cost management efforts.

For the 12-month period ended Sept. 30, 2015, the adjusted O&M efficiency ratio (a non-GAAP measure) improved to 35.8 percent, compared to 36.8 percent for the 12-month period ended Sept. 30, 2014. By reducing O&M expense as a proportion of revenue, American Water is able to make investments in needed capital improvements without significantly impacting customer bills.

As of Sept. 30, 2015, the company was awarded approximately $58.5 million in additional annualized revenues from general rate cases and infrastructure charges for the year. American Water is currently awaiting final orders and/or proposed settlements for general rate cases in three jurisdictions, requesting $69.5 million in total additional revenues. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary.

American Water’s Regulated Businesses completed several acquisitions during the quarter adding 846 customers to its existing footprint. Year-to-date the company added 19,167 customers from acquisitions and currently has 16 pending acquisition agreements in several jurisdictions that if approved and completed will add approximately 13,326 customers to the company’s customer base.

Market-Based Businesses

For the third quarter of 2015, the Market-Based Businesses revenues totaled $120.4 million, an increase of $23.4 million, or 24.1 percent, compared to the same period last year. For the nine months ended Sept. 30, 2015, Market-Based revenues totaled $307.8 million, an increase of $54.0 million, or 21.3 percent, compared to the same period in 2014. The increases in both periods were primarily due to additional revenues in Military Services from increased construction activity and the addition of two bases in the second half of 2014, higher revenues in Homeowner Services from contract growth, primarily in New York City, and the Keystone acquisition.

The O&M expense increased by $21.0 million, or 27.1 percent, for the quarter and $48.0 million, or 23.5 percent, for the nine months ended Sept. 30, 2015, compared to same periods last year. The increases were driven by contract growth in the military and homeowner services business lines, as well as military construction project activities and the Keystone acquisition.

American Water continues to grow its Market-Based Businesses. Effective July 8, 2015, the company completed its acquisition of a 95 percent equity interest in Keystone. The company established Keystone under a holding company separate from its existing utility subsidiaries and American Water Enterprises entity, which owns the company’s military, contract, and homeowner services lines of business. The financial results of Keystone have been included in Market-Based Businesses, which also includes American Water Enterprises.

In September, Military Services was awarded a contract for the water and wastewater systems at Vandenberg Air Force Base in California. The award revenue is estimated at $298 million over a 50-year period.

“American Water is very proud to provide our servicemen and -women and their families on 12 military installations across the country with high quality, reliable water and wastewater services,” said Story. “We believe our strong performance record in both operating and improving the water and wastewater systems efficiently and effectively is a significant factor to our being awarded more military contracts than any other water utility company. In fact, American Water has received several national recognitions for our efforts, including the Partnership for Safe Water Award for Distribution System Optimization at four of the bases we serve. These awards recognize our efforts to go above and beyond what is required when it comes to water quality for the men and women and their families who serve all of us so courageously every day.”

The company’s homeowner services business also continued to expand, with a total of approximately 1.6 million contracts and about 800,000 customers enrolled in its service warranty programs. The company also received a notice of intent to award an exclusive contract with Georgetown County Water and Sewer District in South Carolina, pending contract negotiations, to offer programs to its 22,000 eligible homeowners.

Quarterly Dividend

On Oct. 30, 2015, American Water’s board of directors declared a quarterly cash dividend payment of $0.34 per share of common stock, payable on Dec. 1, 2015, to all shareholders of record as of Nov. 9, 2015.

On June 1, 2015 American Water's board of directors declared a quarterly cash dividend of $0.34 per share of common stock, paid Sept. 1, 2015, to all shareholders of record as of Aug. 10, 2015.

2015 Earnings Guidance

American Water narrowed its 2015 earnings guidance from continuing operations to be in the range of $2.60 to $2.65 per diluted share. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports filed with the Securities and Exchange Commission (SEC).

Non-GAAP Financial Measures

This press release includes a presentation of adjusted EPS from continuing operations. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted EPS from continuing operations is defined as GAAP diluted earnings per common share from continuing operations excluding the one-time impact of the Freedom Industries chemical spill in West Virginia in 2014. This item constitutes a "non-GAAP financial measure" under SEC rules. This non-GAAP financial measure supplements and should be read in conjunction with the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water's baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company's performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses, and the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill as well as the estimated impact of weather. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with GAAP. The item constitutes a "non-GAAP financial measure" under SEC rules. This non-GAAP financial measure supplements and should be read in conjunction with the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill and weather, which involve items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth at the end of this release are tables that reconcile each non-GAAP financial measure to the most directly comparable GAAP financial measure.

2015 Third Quarter Earnings Conference Call

The 2015 third quarter earnings conference call will take place on Thursday, Nov. 5, 2015, at 9 a.m. Eastern Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company's website at www.amwater.com. Presentation slides that will be used in conjunction with the earnings conference call are also available online at http://ir.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through Nov. 12, 2015, by dialing 412-317-0088 for U.S. and international callers. The access code for replay is 10074632**.** The online archive of the webcast will be available through Dec. 7, 2015, by accessing the Investor Relations page of the company's website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest and most geographically diversified publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs 6,800 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, 2015 earnings guidance and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates and other matters; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; potential costs and liabilities of American Water for environmental matters associated with Keystone's operations; the outcome of litigation and government action including with respect to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes and tornadoes, and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its technology systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies and attacks on its computer systems; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including concession arrangements and agreements for provision of water services in shale regions for exploration and production; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on its current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; the ability to utilize its U.S. and state net operating loss carryforwards; migration of customers into or out of its service territories and the condemnation of its systems by municipalities using the power of eminent domain; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges related to American Water's goodwill or other assets; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's businesses, please refer to American Water's annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement, except as otherwise required by the federal securities laws.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2015	2014
Operating revenues	$ 896,206	$ 846,169	$ 2,376,405	$ 2,279,950
Operating expenses				
Operation and maintenance	363,610	341,348	1,024,066	1,004,377
Depreciation and amortization	111,196	106,789	327,496	318,398
General taxes	60,292	60,807	184,210	178,276
(Gain) loss on asset dispositions and purchases	(175)	(60)	(2,512)	(616)
Total operating expenses, net	534,923	508,884	1,533,260	1,500,435
Operating income	361,283	337,285	843,145	779,515
Other income (expenses)				
Interest, net	(77,636)	(75,445)	(228,730)	(222,673)
Allowance for other funds used during construction	3,571	2,805	8,766	7,064
Allowance for borrowed funds used during construction	2,168	1,570	6,232	4,324
Amortization of debt expense	(2,112)	(1,669)	(5,754)	(4,971)
Other, net	(189)	(733)	555	(2,591)
Total other income (expenses)	(74,198)	(73,472)	(218,931)	(218,847)
Income before income taxes	287,085	263,813	624,214	560,668
Provision for income taxes	113,191	107,205	247,202	224,773
Income from continuing operations	173,894	156,608	377,012	335,895
Loss from discontinued operations, net of tax	-	(4,423)	—	(6,288)
Net income	$ 173,894	$ 152,185	$ 377,012	$ 329,607
Basic earnings per share: (a)				
Income from continuing operations	$ 0.97	$ 0.87	$ 2.10	$ 1.88
Loss from discontinued operations, net of tax	$ -	$ (0.02)	$ —	$ (0.04)
Basic earnings per share	$ 0.97	$ 0.85	$ 2.10	$ 1.84
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.96	$ 0.87	$ 2.09	$ 1.87
Loss from discontinued operations, net of tax	$ -	$ (0.02)	$ —	$ (0.03)
Diluted earnings per share	$ 0.96	$ 0.85	$ 2.09	$ 1.83
Average common shares outstanding during the period				
Basic	179,578	178,992	179,534	178,800
Diluted	180,353	179,948	180,346	179,723
Dividends declared per common share	$ 0.34	$ 0.62	$ 0.68	$ 0.93

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

American Water Works Company, Inc. and Subsidiary Companies
Condensed Consolidated Balance Sheet Information (Unaudited)
In thousands

	September 30, 2015	December 31, 2014
Cash and cash equivalents	$ 75,224	$ 23,080
Other current assets	803,785	638,289
Total property, plant and equipment	13,605,510	13,029,296
Total regulatory and other long-term assets	2,620,654	2,440,291
Total Assets	$ 17,105,173	$ 16,130,956
Short-term debt	$ 379,944	$ 449,959
Current portion of long-term debt	22,023	61,132
Other current liabilities	763,420	729,907
Long-term debt	5,954,901	5,448,245
Total regulatory and other long-term liabilities	3,706,771	3,451,250
Contributions in aid of construction	1,112,662	1,074,872
Total stockholders' equity	5,165,452	4,915,591
Total Capitalization and Liabilities	$ 17,105,173	$ 16,130,956

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Earnings Per Share from Continuing Operations (A Non-GAAP, unaudited measure)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Income from continuing operations per diluted common share	$ 0.96	$ 0.87	$ 2.09	$ 1.87
Add:				
After-tax impact of West Virginia Freedom Industries Chemical Spill	-	-	-	0.04
Adjusted income from continuing operations per diluted common share	$ 0.96	$ 0.87	$ 2.09	$ 1.91

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	For the Twelve Months Ended September 30, 2015	2014
	(In thousands)	
Total Operation and Maintenance Expense	$ 1,369,553	$ 1,330,605
Less:		
Operation and maintenance expense—Market-Based Businesses	337,415	272,386
Operation and maintenance expense—Other	(52,805)	(53,606)
Total Regulated Operation and Maintenance Expense	1,084,943	1,111,825
Less:		
Regulated purchased water expense	117,801	119,692
Allocation of non-operation and maintenance expense	37,095	37,975
Impact of West Virginia Freedom Industries chemical spill	136	10,302
Estimated impact of weather (mid-point of range)	—	(1,762)
Adjusted Regulated Operation and Maintenance Expense (a)	$ 929,911	$ 945,618
Total Operating Revenues	$ 3,107,783	$ 2,986,192
Less:		
Operating revenues—Market-Based Businesses	408,643	334,647
Operating revenues—Other	(18,693)	(17,594)
Total Regulated Operating Revenues	2,717,833	2,669,139
Less:		
Regulated purchased water expense*	117,801	119,692
Plus:		
Impact of West Virginia Freedom Industries chemical spill	—	1,012
Estimated impact of weather (mid-point of range)	—	16,785
Adjusted Regulated Operating Revenues (b)	$ 2,600,032	$ 2,567,244
Adjusted Regulated Operation and Maintenance Efficiency Ratio (a)/(b)	35.8%	36.8%

* Calculation assumes purchased water revenues approximate purchased water expenses.

# # #

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AWK 8-K 9/11/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 11, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

At its public meeting on September 11, 2015, the New Jersey Board of Public Utilities (the "NJBPU") announced its approval of a stipulation of settlement signed by the parties (the "Settlement") with respect to a petition filed by New Jersey-American Water Company, Inc. ("NJAW"), a wholly owned subsidiary of American Water Works Company, Inc., to provide for an annual increase in NJAW's water and wastewater rates by approximately $22 million and was based on a return on equity of 9.75%. The new rates will become effective for water and wastewater services rendered by NJAW on and after September 21, 2015.

A copy of a press release issued by NJAW, including a fact sheet attached thereto outlining specific additional information related to the Settlement, is attached as Exhibit 99.1 hereto.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibit has been filed herewith:

Exhibit No.	Description of Exhibit
99.1	Press Release of NJAW dated September 11, 2015, including Rate Case Fact Sheet.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: September 11, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
99.1	Press Release of NJAW dated September 11, 2015, including Rate Case Fact Sheet.

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE

NEW JERSEY
AMERICAN WATER

September 11, 2015

Richard Barnes
856-782-2371
richard.barnes@amwater.com

New Jersey American Water Granted New Rates by New Jersey Board of Public Utilities

Cost of Water Service Remains Less Than a Penny a Gallon; Sewer Rates Formula Also Adjusted to Provide Relief to Some Customers

VOORHEES (September 11, 2015) The New Jersey Board of Public Utilities (BPU) today approved new water and wastewater rates for New Jersey American Water, effective September 21, 2015.

The new rates represent a $22 million annual increase in water and wastewater revenues for New Jersey American Water.

The cost of water service for the company's customers remains less than a penny a gallon. The average bill for a customer using 6,000 gallons of water per month will rise from $51.82 to $53.41, an approximate three percent increase.

Since New Jersey American Water's last rate adjustment in May of 2012, the company has invested more than $775 million to replace and upgrade approximately 160 miles of water infrastructure to improve uninterrupted access to high-quality, reliable water service for its customers. During the same period, the company has lowered its operating expenses by more than $19 million. Those cost reductions supported more than $125 million of infrastructure investment with no impact on customers' bills.

"New Jersey American Water's proactive infrastructure replacement demonstrates our commitment to providing our customers with outstanding water and wastewater services," said William Varley, president of New Jersey American Water. "We're meeting the challenge of replacing or upgrading thousands of miles of aging infrastructure while decreasing our operating costs. Compared to the cost of other household utilities, water service is an excellent value."

The new rates will also result in some New Jersey American Water sewer customers seeing no increase or, in some cases, a decrease in wastewater rates. The BPU has accepted the company's proposal that wastewater rates be recalculated to lessen the impact that outdoor water use has on wastewater bills.

In addition, the BPU approved New Jersey American Water's request to modify its Low Income Payment Program (LIPP). Customers enrolled in the program, who also receive Social Security or are enrolled in Medicare, will be exempt from the monthly distribution system improvement charge. LIPP enrollees had previously only been exempt from paying the monthly fixed service charge.

After filing for the rate increase in January 2015, New Jersey American Water's request underwent extensive public and regulatory scrutiny. The ratemaking process required a lengthy and detailed review by the staff of the BPU, the New Jersey Division of Rate Counsel, the Office of Administrative Law, and more than a dozen interested groups, some of whom the state of New Jersey granted full intervener status in the proceedings. The process also included several public hearings for customer input before an Administrative Law Judge.

New Jersey American Water, a wholly owned subsidiary of American Water (NYSE: AWK) is the largest investor-owned water utility in the state, providing high-quality and reliable water and/or wastewater services to approximately 2.5 million people. Founded in 1886, American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs more than 6,800 dedicated professionals who provide drinking water, wastewater and other related services to approximately 15 million people in 47 states, as well as parts of Canada. More information can be found by visiting www.amwater.com.

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NEW JERSEY AMERICAN WATER COMPANY
RATE CASE FACT SHEET
September 11, 2015

Annual Rate Increase:	**$22M**
Overall Rate Increase %:	**3.3%**
Effective Date:	**September 21, 2015**
Rate Base:	**$2.4B**

Rate of Return:

	Ratio	Cost Rate	Weighted Cost Rate
Long Term Debt	48.00%	5.17%	2.48%
Common Equity	52.00%	9.75%	5.07%
Total	100.00%		7.55%

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AWK 8-K 8/14/2014

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 14, 2014

American Water Works Company, Inc.
(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(Registrant’s telephone number, including area code) (856) 346-8200

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On August 14, 2014, American Water Capital Corp. ("AWCC"), a wholly-owned subsidiary of American Water Works Company, Inc. ("AWWC"), sold $300 million aggregate principal amount of its 3.400% Senior Notes due 2025 ("3.400% Notes") and an additional $200 million aggregate principal amount of its 4.300% Senior Notes due 2042 ("4.300% Notes," together, the "Notes") pursuant to an Underwriting Agreement dated August 11, 2014, between AWCC, AWWC, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities, Inc. and TD Securities (USA) LLC, as representatives of the several underwriters named therein. The Notes have the benefit of a support agreement from AWWC (the "Support Agreement"). The Notes and the Support Agreement were registered under the Securities Act of 1933 pursuant to Registration Statement Nos. 333-181155 and 333-181155-01. This Current Report on Form 8-K is being filed to report, as exhibits, certain documents executed in connection with the sale of the Notes.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit	Description
*1	Underwriting Agreement, dated August 11, 2014, among AWCC, AWWC, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities, Inc. and TD Securities (USA) LLC, as representatives of the several underwriters named therein.
*4.1	Officers' Certificate of AWCC, dated August 14, 2014, establishing the terms of the 3.400% Notes.
4.2	Officers' Certificate of AWCC, dated December 17, 2012, establishing the terms of the 4.300% Notes (incorporated by reference to Exhibit 4.1 to Form 8-K filed December 17, 2012, File No. 001-34028).
*4.3	Officers' Certificate of AWCC, dated August 14, 2014, authorizing a further issuance of the 4.300% Notes.
*5	Opinion and consent of Morgan, Lewis & Bockius LLP.

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*filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: August 14, 2014

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

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Section 2: EX-1 (EX-1)

Exhibit 1

American Water Capital Corp.
1025 Laurel Oak Road
Voorhees, New Jersey 08043

3.400% Senior Notes due 2025
4.300% Senior Notes due 2042

Support Agreement from American Water Works Company, Inc.

Underwriting Agreement

August 11, 2014

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
RBC Capital Markets, LLC
RBS Securities Inc.
TD Securities (USA) LLC
As representatives of the several Underwriters named in Schedule I hereto
c/o Merrill Lynch, Pierce, Fenner & Smith
Incorporated
One Bryant Park
New York, New York 10036.

Ladies and Gentlemen:

1. American Water Capital Corp., a Delaware corporation (the “**Company**”), proposes, subject to the terms and conditions stated herein, to issue and sell to the underwriters named in Schedule I hereto (the “**Underwriters**”), for whom you (the “**Representatives**”) are acting as representatives, (a) an aggregate of $300,000,000 principal amount of the Company’s 3.400% Senior Notes due 2025 (the “**2025 Notes**”) and (b) an aggregate of $200,000,000 principal amount of the Company’s 4.300% Senior Notes due 2042 (the “**2042 Notes**” and, together with the 2025 Notes, the “**Securities**”).

2. The Company previously entered into a support agreement with American Water Works Company, Inc., a Delaware corporation (the “**Parent**”), dated June 22, 2000 and amended as of July 26, 2000 (as such agreement may be hereinafter amended, modified or supplemented from time to time in accordance with the terms and provisions thereof, the “**Support Agreement**”). Pursuant to the Support Agreement, the Parent has agreed, among other things,

to provide funds to the Company if it is unable to make timely payment of principal of and premium, if any, and interest on Debt (as defined in the Support Agreement) issued by the Company.

3. The Company and the Parent, jointly and severally, represent and warrant to, and agree with, each of the Underwriters that:

(a) An "automatic shelf registration statement" as defined under Rule 405 under the Securities Act of 1933, as amended (the "**Act**"), on Form S-3 (File Nos. 333-181155 and 333-181155-01) in respect of the Securities has been filed with the Securities and Exchange Commission (the "**Commission**") not earlier than three years prior to the date hereof; such registration statement, and any post-effective amendment thereto, each in a form heretofore delivered to the Representatives, became effective on filing; and no stop order suspending the effectiveness of such registration statement or any part thereof has been issued and, to the Parent's or the Company's knowledge, no proceeding for that purpose has been initiated or threatened by the Commission, and no notice of objection of the Commission to the use of such registration statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act has been received by the Parent or the Company (the base prospectus filed as part of such registration statement, in the form in which it has most recently been filed with the Commission on or prior to the date of this Agreement, is hereinafter called the "**Basic Prospectus**"; any preliminary prospectus (including any preliminary prospectus supplement) relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act is hereinafter called a "**Preliminary Prospectus**"; the various parts of such registration statement, including all exhibits thereto but excluding the Form T-1 and including any prospectus supplement relating to the Securities that is filed with the Commission and deemed by virtue of Rule 430B to be part of such registration statement, each as amended at the time such part of the registration statement became effective, are hereinafter collectively called the "**Registration Statement**"; the Basic Prospectus, as amended and supplemented immediately prior to the Applicable Time (as defined in Section 3(c) hereof), is hereinafter called the "**Pricing Prospectus**"; the form of the final prospectus relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 7(a) hereof is hereinafter called the "**Prospectus**"; any reference herein to the Basic Prospectus, the Pricing Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act, as of the date of such prospectus; any reference to any amendment or supplement to the Basic Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any post-effective amendment to the Registration Statement, any prospectus supplement relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act and any documents filed under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and incorporated therein, in each case after the date of the Basic Prospectus, such Preliminary Prospectus, or the Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and any "issuer free writing prospectus" as defined in Rule 433 under the Act relating to the Securities is hereinafter called an "**Issuer Free Writing Prospectus**");

(b) No order preventing or suspending the use of any Preliminary Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission. Each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the Trust Indenture Act of 1939, as amended (the "**Trust Indenture Act**"), and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Representatives expressly for use therein (the "**Underwriter Information**");

(c) For the purposes of this Agreement, the "**Applicable Time**" is 4:25 p.m. (Eastern time) on the date of this Agreement. The Pricing Prospectus, as supplemented by the final term sheet prepared and filed pursuant to Section 7(a) hereof, taken together (collectively, the "**Pricing Disclosure Package**"), as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and each Issuer Free Writing Prospectus listed on Schedule II hereto does not conflict with the information contained in the Registration Statement, the Pricing Prospectus or the Prospectus and each such Issuer Free Writing Prospectus, as supplemented by and taken together with the Pricing Disclosure Package as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however,* that the representations and warranties in this clause (c) shall not apply to statements or omissions made in an Issuer Free Writing Prospectus in reliance upon and in conformity with the Underwriter Information;

(d) The documents incorporated by reference in the Pricing Prospectus and the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however,* that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with the Underwriter Information;

(e) The interactive data in eXtensible Business Reporting Language filed as exhibits to the reports included or incorporated by reference in the Registration Statement, the Pricing Disclosure Package and the Prospectus fairly presents the information called for in all material respects and has been prepared in accordance with the Commission's rules and guidelines applicable thereto;

(f) (i) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus will conform, in all material respects to the requirements of the Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and (ii) the Registration Statement and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus do not and will not, as of the applicable effective date as to each part of the Registration Statement and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with the Underwriter Information;

(g) None of the Parent, the Company or any of the Parent's other subsidiaries has sustained since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Pricing Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, there has not been any change in the capital stock or increase in long-term debt of the Parent, the Company or any of the Parent's other subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Parent, the Company and the Parent's other subsidiaries, taken as a whole, otherwise than as set forth or contemplated in the Pricing Prospectus;

(h) The Parent, the Company and each of the Parent's other subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Pricing Prospectus or such as do not affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Parent, the Company and each of the Parent's other subsidiaries except, in each case, as would not, individually or in the aggregate, have a material adverse effect on the financial condition, stockholders' equity, properties or results of operations of the Parent, the Company and the Parent's other subsidiaries, taken as a whole (a "**Material Adverse Effect**"); and any real property and buildings held under lease by the Parent, the Company and each of the Parent's other subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Parent, the Company and each of the Parent's other subsidiaries, otherwise than as set forth or contemplated in the Pricing Prospectus or as would not, individually or in the aggregate, have a Material Adverse Effect;

(i) Each of the Parent and the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Pricing Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, have a Material Adverse Effect; and each subsidiary of the Parent listed on Schedule IV hereto (each a "**Significant Subsidiary**") has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation, except where the failure to be in good standing would not, individually or in the aggregate, have a Material Adverse Effect;

(j) All of the issued shares of capital stock of the Parent and the Company have been duly and validly authorized and issued and are fully paid and non-assessable; and all of the issued shares of capital stock of each Significant Subsidiary have been duly and validly authorized and issued, are fully paid and non-assessable and (except for directors' qualifying shares and except as otherwise set forth in the Pricing Prospectus) are owned directly or indirectly by the Parent, free and clear of all liens, encumbrances, equities or claims, except for liens, encumbrances, equities or claims that would not, individually or in the aggregate, have a Material Adverse Effect;

(k) This Agreement has been duly authorized, executed and delivered by each of the Company and the Parent; the Securities have been duly authorized and, when issued and delivered pursuant to this Agreement, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company entitled to the benefits provided by the indenture, dated as of December 4, 2009, between the Company and Wells Fargo Bank, National Association, as Trustee (the "**Trustee**") as amended (the "**Indenture**"), under which they are to be issued; the Indenture has been duly authorized, executed and delivered by the Company and duly qualified under the Trust Indenture Act and constitutes a valid and legally binding instrument, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; the Support Agreement has been duly authorized, executed and delivered by the Parent and the Company and constitutes a valid and legally binding instrument, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; and the Securities, the Indenture and the Support Agreement will conform to the descriptions thereof in the Pricing Prospectus and the Prospectus and will be in substantially the form previously delivered to you;

(l) None of the transactions contemplated by this Agreement (including, without limitation, the use of the proceeds from the sale of the Securities) will violate or result in a violation of Section 7 of the Exchange Act, or any regulation promulgated thereunder, including, without limitation, Regulations T, U, and X of the Board of Governors of the Federal Reserve System;

(m) The issue and sale of the Securities and the compliance by the Parent and the Company with all of the provisions of the Securities, the Indenture, the Support Agreement and this Agreement and the consummation of the transactions herein and therein contemplated (i) will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Parent, the Company or any of the Parent's other subsidiaries is a party or by which the Parent, the Company or any of the Parent's other subsidiaries is bound or to which any of the property or assets of the Parent, the Company or any of the Parent's other subsidiaries is subject, and (ii) will not result in any violation of (A) the provisions of the Certificate of Incorporation or the By-laws, as amended, of the Company or the Restated Certificate of Incorporation or the Amended and Restated By-laws of the Parent or (B) any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Parent, the Company or any of the Parent's other subsidiaries or any of their properties, except in the case of clauses (i) and (ii)(B) for any conflict, breach, violation or default that would not, individually or in the aggregate, have a Material Adverse Effect or impair the ability of the Parent or the Company to consummate the transactions contemplated by this Agreement; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Securities or the consummation by the Parent or the Company of the transactions contemplated by this Agreement, the Indenture, or the Support Agreement, except (i) the registration under the Act of the Securities, (ii) such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Underwriters and (iii) such consents, approvals, authorizations, orders, registrations or qualifications that have already been obtained or the failure of which to obtain would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or impair the ability of the Parent or the Company to consummate the transactions contemplated by this Agreement;

(n) None of the Parent, the Company or any of the Parent’s other subsidiaries is (A) in violation of its Certificate of Incorporation or By-laws, as amended, in the case of the Company, or its Restated Certificate of Incorporation or Amended and Restated By-laws, in the case of the Parent, or similar organizational documents, in the case of the Parent’s other subsidiaries, or (B) in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, except in the case of clause (A) (with respect to subsidiaries of the Parent other than the Company and the Significant Subsidiaries) and clause (B), for violations or defaults that would not, individually or in the aggregate, have a Material Adverse Effect;

(o) The statements set forth in the Pricing Prospectus and Prospectus under the caption “Description of the Notes”, insofar as they purport to constitute a summary of the terms of the Securities, under the caption “Underwriting”, insofar as they purport to describe the provisions of the documents described therein, under the caption “Certain United States Federal Income Tax Considerations”, and in the Company’s most recent Annual Report on Form 10-K under the captions “Item 1A, Risk Factors—Risks Related to Our Industry and Business—Our utility operations are subject to extensive economic regulations. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations”; and “Item 1, Business—Our Regulated Businesses—Regulation—Economic Regulation”, insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair in all material respects;

(p) Other than as set forth in the Pricing Prospectus, there are no legal or governmental proceedings pending to which the Parent, the Company or any of the Parent’s other subsidiaries is a party or of which any property of the Parent, the Company or any of the Parent’s other subsidiaries is the subject which would reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Company’s and the Parent’s knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(q) Neither the Parent nor the Company is or, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof, will be an “investment company”, as such term is defined in the Investment Company Act of 1940, as amended (the “**Investment Company Act**”);

(r) (A) (i) At the time of filing the Registration Statement, (ii) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15 (d) of the Exchange Act or form of prospectus), and (iii) at the time the Parent or the Company or any person acting on the Parent’s or the Company’s behalf (within the meaning, for this clause only, of Rule 163(c) under the Act) made any offer relating to the Securities in reliance on the exemption of Rule 163 under the Act, the Parent and the Company were each a “well-known seasoned issuer” as defined in Rule 405 under the Act; and (B) at the earliest time after the filing of the Registration Statement that the Parent or the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the Act) of the Securities, neither the Parent nor the Company was an “ineligible issuer” as defined in Rule 405 under the Act;

(s) PricewaterhouseCoopers LLP, which has certified certain financial statements of the Parent and its subsidiaries, is an independent registered public accounting firm with respect to the Parent and its subsidiaries as required by the Act and the rules and regulations of the Commission thereunder;

(t) Except as disclosed in the Pricing Prospectus, the Parent maintains a system of internal controls over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies in all material respects with the requirements of the Exchange Act and has been designed by the Parent’s principal executive officer and principal financial officer, or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Except as disclosed in the Pricing Prospectus, the Parent’s internal controls over financial reporting are effective and the Parent is not aware of any material weaknesses in its internal controls over financial reporting;

(u) Except as disclosed in the Pricing Prospectus, since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus, there has been no change in the Parent’s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Parent’s internal controls over financial reporting;

(v) The Parent maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that comply in all material respects with the requirements of the Exchange Act; such disclosure controls and procedures have been designed to ensure that material information relating to the Parent, the Company and each of the Parent’s other subsidiaries is made known to the Parent’s principal executive officer and principal financial officer by others within those entities; and, except as disclosed in the Pricing Prospectus, such disclosure controls and procedures are effective;

(w) The Parent, the Company and each of the Parent’s other subsidiaries possess all permits, licenses, franchises, authorizations, registrations, qualifications and approvals of governmental or regulatory authorities as may be required of them to own their properties and conduct their businesses in the manner described in the Pricing Prospectus (collectively, “**Permits**”), except where the failure to possess such Permits would not, individually or in the aggregate, have a Material Adverse Effect; and the Parent, the Company and each of the Parent’s other subsidiaries have fulfilled and performed all of their obligations with respect to such Permits required to have been performed, and no event has occurred which allows or, after notice or lapse of time or both, would allow revocation or termination thereof or result in any other material impairment of the rights of the holder of any such Permit, except, in each case, as disclosed in the Pricing Prospectus or would not, individually or in the aggregate, have a Material Adverse Effect;

(x) To the Parent’s and the Company’s knowledge, the Parent, the Company and each of the Parent’s other subsidiaries own, possess or have the right to employ sufficient patents, patent rights, licenses, inventions, copyrights, know how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, software, systems or procedures), trademarks, service marks and trade names, inventions, computer programs, technical data and information (collectively, the “**Intellectual Property Rights**”) reasonably necessary to conduct their businesses as now conducted, except where the failure to own, possess or have the right would not, individually or in the aggregate, have a Material Adverse Effect. None of the Parent, the Company or any of the Parent’s other subsidiaries has received any notice of infringement or conflict with asserted rights of others with respect to any of the Intellectual Property Rights, whether or not arising from transactions in the ordinary course of business, except for such infringements or conflicts that would not, individually or in the aggregate, have a Material Adverse Effect. To the Parent’s and the Company’s knowledge, the use of the Intellectual Property Rights in connection with the business and operations of the Parent, the Company and each of the Parent’s other subsidiaries does not infringe on the rights of any person;

(y) Except as disclosed in the Pricing Prospectus, none of the Parent, the Company or any of the Parent’s other subsidiaries (i) is in violation of any law, statute, or any rule, regulation, decision or order of any governmental agency or body or any court relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, “**Environmental Laws**”), (ii) owns or operates any real property which, to the

Parent’s or the Company’s knowledge, is contaminated with any substance that is regulated under any Environmental Laws, (iii) is, to the Parent’s or the Company’s knowledge, liable for any off-site disposal or contamination pursuant to any Environmental Laws, or (iv) has received any written notice of any claim under any Environmental Laws, and the Parent and the Company are not aware of any pending investigation which could reasonably be expected to lead to such a claim, in the case of clauses (i), (ii), (iii) and (iv), which could, individually or in the aggregate, have a Material Adverse Effect;

(z) The Parent, the Company and each of the Parent’s other subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are, in management’s judgment, prudent and customary in the businesses in which they are engaged; within the past five years, none of the Parent, the Company or any such subsidiary has been refused any insurance coverage sought or applied for; and none of the Parent, the Company or any such other subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not, individually or in the aggregate, have a Material Adverse Effect, except, in each case, as set forth in or contemplated in the Pricing Prospectus;

(aa) Neither the Parent nor the Company has taken or will take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities;

(bb) The Parent is in compliance in all material respects with all provisions of the Sarbanes-Oxley Act of 2002 that are effective and applicable to the Parent as of the date hereof;

(cc) The Parent, the Company and each of the Parent’s other subsidiaries have filed all federal, state and foreign tax returns, or has filed for extensions of the due dates of such returns, required to be filed and have paid all taxes shown as due thereon except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect; and other than tax deficiencies which the Parent, the Company or any of the Parent’s other subsidiaries is contesting in good faith and for which the Parent, the Company or any of the Parent’s other subsidiaries has provided adequate reserves, there is no tax deficiency that has been asserted in writing against the Parent, the Company or any of the Parent’s other subsidiaries that would, individually or in the aggregate, have a Material Adverse Effect; and the United States federal income tax returns of the Parent, the Company and each of the Parent’s other subsidiaries through the fiscal year ended December 31, 2010 have been settled and no assessment in connection therewith has been made against the Parent, the Company or any of the Parent’s other subsidiaries that would, individually or in the aggregate, have a Material Adverse Effect; and (dd) Except as disclosed in the Pricing Prospectus, none of the following events has occurred or exists: (i) a failure to fulfill the obligations, if any, under the minimum funding standards of Section 302 of the United States Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), and the regulations and published interpretations thereunder with respect to a Plan, determined without regard to any waiver of such obligations or extension of any amortization period; (ii) an audit or investigation by the Internal Revenue Service, the U.S. Department of Labor, the Pension Benefit Guaranty Corporation or any other federal or state governmental agency or any foreign regulatory agency with respect to the employment or compensation of employees by any of the Parent, the Company or any of the Parent’s other subsidiaries that could, individually or in the aggregate, have a Material Adverse Effect; or (iii) any breach of any contractual obligation, or any violation of law or applicable qualification standards, with respect to the employment or compensation of employees by the Parent, the Company or any of the Parent’s other subsidiaries, in the case of clauses (i), (ii) and (iii), that could, individually or in the aggregate, have a Material Adverse Effect. Except as disclosed in the Pricing Prospectus, none of the following events has occurred or is reasonably likely to occur: (i) an increase in the aggregate amount of contributions required to be made to all Plans in the current fiscal year of the Parent, the Company and each of the Parent’s other subsidiaries compared to the amount of such contributions made in the most recently completed fiscal year of the Parent, the Company and each of the Parent’s other subsidiaries; (ii) an increase in the “accumulated post-retirement benefit obligations” (within the meaning of Statement of Financial Accounting Standards 106) of the Parent, the Company and each of the Parent’s other subsidiaries compared to the amount of such obligations in the most recently completed fiscal year of the Parent, the Company and each of the Parent’s other subsidiaries; (iii) any event or condition giving rise to a liability under Title IV of ERISA; or (iv) the filing of a claim by one or more employees or former employees of the Parent, the Company or any of the Parent’s other subsidiaries related to their employment, in the case of clauses (i), (ii), (iii) and (iv), that could, individually or in the aggregate, have a Material Adverse Effect. For purposes of this paragraph, the term “**Plan**” means a plan (within the meaning of Section 3(3) of ERISA) subject to Title IV of ERISA with respect to which the Parent, the Company or any of the Parent’s other subsidiaries may have any liability.

Any certificate signed by any authorized officer of the Parent or the Company and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Parent and the Company, as to matters covered thereby, to each Underwriter.

4. Subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each of the Underwriters, and each of the

Underwriters agrees, severally and not jointly, to purchase from the Company, (a) at a purchase price of 99.217% of the principal amount thereof, including accrued interest**,** if any, from August 14, 2014 to the Time of Delivery (as defined in Section 6(a)), the principal amount of the 2025 Notes set forth opposite the name of such Underwriter in Schedule I hereto and (b) at a purchase price of 98.714% of the principal amount thereof, including accrued interest from June 1, 2014 to the Time of Delivery, the principal amount of the 2042 Notes set forth opposite the name of such Underwriter in Schedule I hereto.

5. Upon the authorization by the Company of the release of the Securities, the several Underwriters propose to offer the Securities for sale upon the terms and conditions set forth in the Prospectus.

6. (a) Each series of Securities to be purchased by each Underwriter hereunder will be represented by one or more definitive global securities in book-entry form which will be deposited by or on behalf of the Company with The Depository Trust Company ("**DTC**") or its designated custodian. The Company will deliver the Securities to the Representatives, for the account of the Underwriters, against payment by or on behalf of the Underwriters of the purchase price therefor by wire transfer of Federal (same day) funds, by causing DTC to credit the Securities to the account of the Representatives at DTC. The Company will cause forms of the certificates representing the Securities to be made available to the Representatives for checking at least twenty-four hours prior to the Time of Delivery hereunder at the office of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York 10004 (the "**Closing Location**"). The time and date of such delivery and payment shall be 9:30 a.m., Eastern time, on August 14, 2014 or such other time and date as the Representatives and the Company may agree upon in writing. Such time and date is herein called the "**Time of Delivery**".

(b) The documents to be delivered at the Time of Delivery by or on behalf of the parties hereto pursuant to Section 10 hereof, including the cross receipt for the Securities and any additional documents requested by the Underwriters pursuant to Section 10 hereof, will be delivered at the Closing Location, and the Securities will be delivered through the facilities of DTC, all at the Time of Delivery. A meeting will be held at the Closing Location at 2:00 p.m., Eastern time, on the New York Business Day next preceding the Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Agreement, "**New York Business Day**" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York City are generally authorized or obligated by law or executive order to close.

7. Each of the Parent and the Company, jointly and severally, agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement and to make no further amendment or any supplement to the Registration Statement, the Basic Prospectus or the Prospectus prior to the Time of Delivery without the consent of the Representatives promptly after reasonable notice thereof (which consent shall not be unreasonably withheld); to advise the Representatives, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any amendment or supplement to the Prospectus has been filed and to furnish the Representatives with copies thereof; to prepare a final term sheet, containing solely a description of the Securities, in a form substantially consistent with Schedule III hereto and to file such term sheet pursuant to Rule 433(d) under the Act within the time required by such Rule; to file promptly all other material required to be filed by the Company with the Commission pursuant to Rule 433(d) under the Act; to file promptly all reports and any definitive proxy or information statements required to be filed by the Parent or the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required in connection with the offering or sale of the Securities; to advise the Representatives, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or other prospectus in respect of the Securities, of any notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or other prospectus or suspending any such qualification, to promptly use its best efforts to obtain the withdrawal of such order; and in the event of any such issuance of a notice of objection, promptly to take such steps including, without limitation, amending the Registration Statement or filing a new registration statement, at its own expense, as may be necessary to permit offers and sales of the Securities by the Underwriters (references herein to the Registration Statement shall include any such amendment or new registration statement);

(b) If by the third anniversary (the "**Renewal Deadline**") of the initial effective date of the Registration Statement, any of the Securities remain unsold by the Underwriters, the Parent will file, if it has not already done so and is eligible to do so, a new automatic shelf registration statement relating to the Securities, in a form satisfactory to the Representatives. If at the Renewal Deadline the Parent is no longer eligible to file an automatic shelf registration statement, the Parent will, if it has not already done so, file a new shelf registration statement relating to the Securities, in a form satisfactory to the Representatives and will use its best efforts to cause such registration statement to be declared effective within 180 days after the Renewal Deadline. The Parent will take all other action necessary or appropriate to permit the public offering and sale of the Securities to continue as contemplated in the expired registration statement relating to the Securities. References herein to the Registration Statement shall include such new automatic shelf registration statement or such new shelf registration statement, as the case may be;

(c) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Securities for offering and sale under the securities laws of such U.S. jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities, provided that in connection therewith neither the Parent nor the Company shall be required to qualify as a foreign corporation or to file a general consent to service of process or subject itself to taxation for doing business in any jurisdiction;

(d) To use reasonable efforts to furnish to the Underwriters as soon as practicable after the date of this Agreement but no later than 5:30 p.m., Eastern time, on the second New York Business Day immediately succeeding the date of this Agreement and from time to time, with printed and electronic copies of the Prospectus in such quantities as the Representatives may reasonably request, and, if the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is, based on advice of counsel, required at any time during the period from the time of issue of the Prospectus until the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Securities and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act or the Exchange Act, to notify the Representatives and upon the request of the Representatives to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many printed and electronic copies as the Representatives may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance; and in case any Underwriter is required to deliver a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) in connection with sales of any of the Securities at any time nine months or more after the time of issue of the Prospectus, upon the request of the Representatives but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many printed and electronic copies as the Representatives may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(e) To make generally available to its securityholders as soon as practicable, but in any event not later than sixteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Parent and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations of the Commission thereunder (including, at the option of the Parent, Rule 158);

(f) During the period beginning from the date hereof and continuing until the Time of Delivery, not to offer, sell, contract to sell, or otherwise dispose of, except as provided hereunder, any securities of the Parent or the Company that are substantially similar to the Securities without the Representatives' prior written consent;

(g) To take all reasonable action necessary to enable Standard & Poor's Ratings Service, a division of McGraw Hill, Inc., and Moody's Investors Service Inc. to provide their respective credit ratings of the Securities;

(h) During a period of three years from the effective date of the Registration Statement, to furnish to the holders of the Securities as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Parent and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), to make available to the holders of the Securities consolidated summary financial information of the Parent and its subsidiaries for such quarter in reasonable detail; *provided, however*, that the Parent and the Company may satisfy the requirements of this subsection by making any such reports, communications or information available on its web site or by filing such information with the Commission via EDGAR or any successor filing system thereto;

(i) During a period of three years from the effective date of the Registration Statement, to furnish to the Representatives copies of all reports or other communications (financial or other) furnished to the holders of the Securities, and to deliver to the Representatives as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Parent or the Company is listed, *provided*, *however*, that the Parent and the Company may satisfy the requirements of this subsection by making any such reports, communications or information available on its web site or by filing such information with the Commission via EDGAR or any successor filing system thereto;

(j) To use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Pricing Prospectus under the caption “Use of Proceeds”;

(k) To pay the required Commission filing fees relating to the Securities within the time required by Rule 456(b)(1) under the Act without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) under the Act; and

(l) Upon request of any Underwriter, to furnish, or cause to be furnished, to such Underwriter an electronic version of the Parent’s trademarks, servicemarks and corporate logo for use on the website, if any, operated by such Underwriter for the purpose of facilitating the on-line offering of the Securities (the “**License**”); *provided*, *however*, that the License shall be used solely for the purpose described above, is granted without any fee and may not be assigned or transferred.

8. (a) (i) Each of the Parent and the Company represents and agrees that, other than the final term sheet in a form substantially consistent with Schedule III hereto and filed pursuant to Section 7(a) hereof, without the prior written consent of the Representatives, it has not made and will not make any offer relating to the Securities that would constitute a “free writing prospectus” as defined in Rule 405 under the Act; (ii) each Underwriter represents and agrees that, without the prior written consent of the Company, other than one or more term sheets relating to the Securities substantially consistent with Schedule III hereto, containing no “issuer information” (as defined in Rule 433(h)(2) under the Act) that was not included in the Preliminary Prospectus or Pricing Prospectus, it has not made and will not make any offer relating to the Securities that would constitute a free writing prospectus; and (iii) any such free writing prospectus the use of which has been consented to by the Company and the Representatives is listed on Schedule II hereto;

(b) The Company has complied and will comply with the requirements of Rule 433 under the Act applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission or retention where required and legending; and the Company represents that it has satisfied and agrees that it will satisfy the conditions under Rule 433 under the Act to avoid a requirement to file with the Commission any electronic road show; and

(c) The Company agrees that if at any time following issuance of an Issuer Free Writing Prospectus any event occurred or occurs as a result of which such Issuer Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or, when taken together with the Pricing Prospectus, would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to the Representatives and, if requested by the Representatives, will prepare and furnish without charge to each Underwriter an Issuer Free Writing Prospectus or other document which will correct such conflict, statement or omission; *provided, however,* that this representation and warranty shall not apply to any statements or omissions in an Issuer Free Writing Prospectus made in reliance upon and in conformity with the Underwriter Information.

9. Each of the Parent and the Company covenants and agrees with the several Underwriters that the Parent and the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Parent's and the Company's counsel and accountants in connection with the registration of the Securities under the Act and all other expenses in connection with the preparation, printing, reproduction and filing of the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, any Issuer Free Writing Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any agreement among Underwriters, this Agreement, the Indenture, the Support Agreement, any Blue Sky survey, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Securities; (iii) all expenses in connection with the qualification of the Securities for offering and sale under state securities laws as provided in Section 7(c) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with any Blue Sky survey; (iv) any fees charged by securities rating services for rating the Securities; (v) the cost of preparing the Securities; (vi) the fees and expenses of the Trustee and any agent of the Trustee and the fees and disbursements of counsel for the Trustee in connection with the Indenture, the Securities and the Support Agreement; and (vii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section; *provided, however,* that reimbursements to the Underwriters, if any, shall be limited to expenses actually incurred and *provided further* that in the case of clause (iii), the Parent and the Company shall not be requested to cover expenses of counsel for the Underwriters in excess of $5,000 in the aggregate.

10. The obligations of the Underwriters hereunder shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Parent and the Company herein are, at and as of the Time of Delivery, true and correct, the condition that the Parent and the Company shall have performed all of their obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 7(a) hereof; the final term sheet in a form substantially consistent with Schedule III hereto, and any other material required to be filed by the Company pursuant to Rule 433(d) under the Act, shall have been filed with the Commission within the applicable time period prescribed for such filing by Rule 433; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission and no notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act shall have been received; no stop order suspending or preventing the use of the Prospectus or any Issuer Free Writing Prospectus shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to the reasonable satisfaction of the Representatives;

(b) Sullivan & Cromwell LLP, counsel for the Underwriters, shall have furnished to the Representatives such written opinions, dated the Time of Delivery, in form and substance satisfactory to the Representatives, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Morgan, Lewis & Bockius LLP, counsel for the Company, shall have furnished to the Representatives their written opinion and 10b-5 statement, each dated the Time of Delivery, in the form attached as Annex IIA and B hereto;

(d) Thomas S. Wyatt, Vice President and Secretary of the Company, shall have furnished to the Representatives his written opinion, dated the Time of Delivery, in the form attached as Annex III hereto;

(e) (i) On the date of this Agreement, (ii) on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and (iii) at the Time of Delivery, PricewaterhouseCoopers LLP shall have furnished to the Representatives a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to the Representatives, to the effect set forth in Annex I hereto;

(f) (i) None of the Parent, the Company or any of the Parent’s other subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Pricing Prospectus, and (ii) since the respective dates as of which information is given in the Pricing Prospectus there shall not have been any change in the capital stock or increase in long-term debt of the Parent, the Company or any of the Parent's other subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Parent, the Company and the Parent's other subsidiaries, otherwise than as set forth or contemplated in the Pricing Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities on the terms and in the manner contemplated in the Prospectus;

(g) On or after the Applicable Time (i) no downgrading shall have occurred in the rating accorded the Parent's or the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission pursuant to Section 3(a)(62) of the Exchange Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Parent's or the Company's debt securities;

(h) On or after the Applicable Time there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange; (ii) a suspension or material limitation in trading in the Parent's or the Company's securities on the New York Stock Exchange; (iii) a general moratorium on commercial banking activities declared by Federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war; or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (iv) or (v) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities on the terms and in the manner contemplated in the Prospectus; and

(i) Each of the Parent and the Company shall have furnished or caused to be furnished to the Representatives at the Time of Delivery certificates of officers of the Parent and the Company reasonably satisfactory to the Representatives as to the accuracy of the representations and warranties of the Parent and the Company, respectively, herein at and as of the Time of Delivery, as to the performance by the Parent and the Company of all their respective obligations hereunder to be performed at or prior to the Time of Delivery, as to the matters set forth in subsections (a), (f) and (g) of this Section and as to such other matters as the Representatives may reasonably request.

11. (a) The Parent and the Company will, jointly and severally, indemnify and hold harmless each Underwriter against any losses, claims,

damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) under the Act, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; *provided*, *however*, that the Parent and the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with the Underwriter Information.

(b) Each Underwriter will indemnify and hold harmless the Parent and the Company against any losses, claims, damages or liabilities to which the Parent or the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with the Underwriter Information; and will reimburse the Parent and the Company for any legal or other expenses reasonably incurred by the Parent or the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ one separate counsel, and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate firm (in addition to one local counsel in each jurisdiction) if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) in an action where both the indemnifying and the indemnified party are actual or potential defendants, the indemnified party shall have reasonably concluded that there are actual or potential conflicting interests between the indemnifying party and the indemnified party, including situations in which there may be one or more legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party. No indemnified party shall, without the written consent of the indemnifying party (such consent not to be unreasonably withheld), effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder.

(d) If the indemnification provided for in this Section 11 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Parent and the Company on the one hand and the Underwriters on the other from the offering of the Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Parent and the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Parent and the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Parent and the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Parent or the Company on the one hand or the Underwriter Information on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Parent, the Company, and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Parent and the Company under this Section 11 shall be in addition to any liability which the Parent and the Company may otherwise have and shall extend, upon the same terms and conditions, to the directors, officers, employees and agents of each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act and each broker-dealer affiliate of any Underwriter; and the obligations of the Underwriters under this Section 11 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer, director and employee of the Parent and the Company and to each person, if any, who controls the Parent or the Company within the meaning of the Act.

12. (a) If any Underwriter shall default in its obligation to purchase the Securities which it has agreed to purchase hereunder, the Representatives may in their discretion arrange for any of the Representatives or another party or other parties to purchase such Securities on the terms contained herein. If within thirty six hours after such default by any Underwriter the Representatives do not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of thirty six hours within which to procure another party or other parties satisfactory to the Representatives to purchase such Securities on such terms. In the event that, within the respective prescribed periods, the Representatives notify the Company that they have so arranged for the purchase of such Securities, or the Company notifies the Representatives that it has so arranged for the purchase of such Securities, the Representatives or the Company shall have the right to postpone the Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to prepare promptly any amendments to the Registration Statement or the Prospectus which in the opinion of the Representatives may thereby be made necessary. The term “Underwriter” as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Securities.

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased does not exceed one eleventh of the aggregate principal amount of all the Securities, then the Company shall have the right to require each non-defaulting Underwriter to purchase the principal amount of Securities which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the principal amount of Securities which such Underwriter agreed to purchase hereunder) of the Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided in subsection (a) above, the aggregate principal amount of Securities which remains unpurchased exceeds one eleventh of the aggregate principal amount of all the Securities, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Securities of a defaulting Underwriter or Underwriters, then this Agreement shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 9 hereof and the indemnity and contribution agreements in Section 11 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

13. The respective indemnities, agreements, representations, warranties and other statements of the Parent, the Company and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, the Parent or the Company, or any officer or director or controlling person of the Parent or the Company and shall survive delivery of and payment for the Securities.

14. If for any reason, other than a default by the Underwriters in their obligation to purchase the Securities, any Securities are not delivered by or on behalf of the Company as provided herein, the Company will reimburse the Underwriters through the Representatives for all reasonable expenses approved in writing by the Representatives, including reasonable fees and disbursements of counsel, incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Securities not so delivered, but the Parent and the Company shall then be under no further liability to the Underwriters except as provided in Sections 9 and 11 hereof.

15. In all dealings hereunder, the Representatives shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by the Representatives jointly.

16. All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail or facsimile transmission to the Representatives in care of: Merrill Lynch, Pierce, Fenner & Smith Incorporated, 50 Rockefeller Plaza, NY1-050-12-01, New York, NY 10020, Facsimile: (646) 855-5958, Attention: High Grade Transaction

Management/Legal; RBC Capital Markets, LLC, Three World Financial Center, 200 Vesey Street, New York, NY 10281; RBS Securities Inc., 600 Washington Blvd, Stamford, CT 06901, Attention: Debt Capital Markets/Syndicate; Fax: 203-873-4534; and TD Securities (USA) LLC, 31 W. 52nd St., 20th Fl., New York, NY 10019; and if to the Parent or the Company shall be delivered or sent by mail or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary. Any such statements, requests, notices or agreements shall take effect upon receipt thereof. In accordance with the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Underwriters are required to obtain, verify and record information that identifies their respective clients, including the Parent and the Company, which information may include the name and address of their respective clients, as well as other information that will allow the Underwriters to properly identify their respective clients.

17. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Parent and the Company and, to the extent provided in Sections 11 and 13 hereof, the officers and directors of the Parent and the Company and each person who controls the Parent and the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Securities from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

18. Time shall be of the essence of this Agreement. As used herein, the term “**business day**” shall mean any day when the Commission’s office in Washington, D.C. is open for business.

19. The Parent and the Company acknowledge and agree that (i) the purchase and sale of the Securities pursuant to this Agreement is an arm’s-length commercial transaction between the Parent and the Company, on the one hand, and the several Underwriters, on the other, (ii) in connection therewith and with the process leading to such transaction each Underwriter is acting solely as a principal and not the agent or fiduciary of the Parent or the Company, (iii) no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Parent or the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Parent or the Company) or any other obligation to the Parent or the Company except the obligations expressly set forth in this Agreement and (iv) the Parent and the Company have consulted their own legal and financial advisors to the extent they deemed appropriate. The Parent and the Company agree that they will not claim that the Underwriters, or any of them, has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Parent or the Company, in connection with such transaction or the process leading thereto.

20. This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Parent, the Company and the Underwriters, or any of them, with respect to the subject matter hereof.

21. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

22. The Parent, the Company and each of the Underwriters hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

23. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

24. Notwithstanding anything herein to the contrary, each of the Parent and the Company are authorized to disclose to any persons the tax treatment and tax structure of the potential transaction and all materials of any kind (including tax opinions and other tax analyses) provided to the Parent and the Company relating to that treatment and structure, without the Underwriters imposing any limitation of any kind. However, any information relating to the tax treatment and tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent necessary to enable any person to comply with securities laws. For this purpose, “tax treatment” means U.S. Federal and State income tax treatment, and “tax structure” is limited to any facts that may be relevant to that treatment.

If the foregoing is in accordance with your understanding, please sign and return to us five counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement between each of the Underwriters, the Parent and the Company.

Very truly yours,

AMERICAN WATER CAPITAL CORP.

By: /s/ William D. Rogers
Name: William D. Rogers
Title: Vice President and Treasurer

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ William D. Rogers
Name: William D. Rogers
Title: Vice President and Treasurer

Accepted as of the date hereof:

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

RBC Capital Markets, LLC

RBS Securities Inc.

TD Securities (USA) LLC

On behalf of each of the Underwriters

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: /s/ Brendan Hanley
Name: Brendan Hanley
Title: Managing Director

RBC CAPITAL MARKETS, LLC

By: /s/ John Sconzo
Name: John Sconzo
Title: MD

RBS SECURITIES INC.

By: /s/ Okwudiri Onyedum
Name: Okwudiri Onyedum
Title: Managing Director

TD SECURITIES (USA) LLC

By: /s/ Wei-Ming Lee
Name: Wei-Ming Lee
Title: Head of US Origination & Syndication

SCHEDULE I

	Principal Amount of the 2025 Notes to be Purchased	Principal Amount of the 2042 Notes to be Purchased
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 60,000,000	$ 40,000,000
RBC Capital Markets LLC	60,000,000	40,000,000
RBS Securities Inc.	60,000,000	40,000,000
TD Securities (USA) LLC	60,000,000	40,000,000
U.S. Bancorp Investments, Inc.	12,000,000	8,000,000
Mitsubishi UFJ Securities (USA), Inc.	12,000,000	8,000,000
The Williams Capital Group, L.P.	12,000,000	8,000,000
Blaylock Beal Van, LLC	6,000,000	4,000,000
Loop Capital Markets, LLC	6,000,000	4,000,000
MFR Securities, Inc.	6,000,000	4,000,000
Mischler Financial Group, Inc.	6,000,000	4,000,000
Total	$300,000,000	$200,000,000
Total	$500,000,000	

SCHEDULE II

(a) Issuer Free Writing Prospectuses included in the Pricing Disclosure Package:

Final term sheet attached hereto as Schedule III.

(b) Issuer Free Writing Prospectuses not included in the Pricing Disclosure Package:

None.

SCHEDULE III

August 11, 2014

American Water Capital Corp.
American Water Works Company Inc.

$300,000,000 3.400% Senior Notes due 2025
$200,000,000 4.300% Senior Notes due 2042

Term Sheet

Issuer:	American Water Capital Corp.
Support Provider:	American Water Works Company, Inc.
Security:	3.400% Senior Notes due 2025 (the "**2025 Notes**") 4.300% Senior Notes due 2042 (the "**2042 Notes**")
Size:	$300,000,000 for the 2025 Notes $200,000,000 for the 2042 Notes
Trade Date:	August 11, 2014
Settlement Date:	August 14, 2014 (T+3)
Maturity Date:	March 1, 2025 for the 2025 Notes December 1, 2042 for the 2042 Notes
Benchmark Treasury:	UST 2.500% due May 15, 2024 for the 2025 Notes UST 3.625% due February 15, 2044 for the 2042 Notes
Benchmark Treasury Yield:	2.415% for the 2025 Notes 3.225% for the 2042 Notes
Spread to Benchmark Treasury:	+100 bps for the 2025 Notes +110 bps for the 2042 Notes
Yield to Maturity:	3.415% for the 2025 Notes 4.300% for the 2042 Notes
Coupon:	3.400% for the 2025 Notes 4.300% for the 2042 Notes
Price to Public:	99.867% for the 2025 Notes 99.589% for the 2042 Notes, plus accrued interest of $1,743,888.89 from June 1, 2014
Interest Payment Dates:	2025 Notes: March 1 and September 1 of each year, beginning on March 1, 2015 2042 Notes: June 1 and December 1 of each year, beginning on December 1, 2014
Redemption Provisions:	
Make whole call:	Treasury +15 bps for the 2025 Notes Treasury +25 bps for the 2042 Notes
Par call:	On or after December 1, 2024 for the 2025 Notes On or after June 1, 2042 for the 2042 Notes
CUSIP:	2025 Notes: 03040W AL9 2042 Notes: 03040W AJ4
ISIN:	2025 Notes: US03040W AL90 2042 Notes: US03040WAJ45

Joint Book-Running Managers:	Merrill Lynch, Pierce, Fenner & Smith Incorporated RBC Capital Markets, LLC RBS Securities Inc. TD Securities (USA) LLC
Co-Managers:	U.S. Bancorp Investments, Inc. Mitsubishi UFJ Securities (USA), Inc. The Williams Capital Group, L.P. Blaylock Beal Van, LLC Loop Capital Markets, LLC MFR Securities, Inc. Mischler Financial Group, Inc.

The Issuer and the Support Provider have filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the Issuer and the Support Provider have filed with the SEC for more complete information about the Issuer, the Support Provider and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, any underwriter participating in the offering will arrange to send you the prospectus if you request it by calling Merrill Lynch, Pierce, Fenner & Smith Incorporated at 1-800-294-1322, RBC Capital Markets, LLC at 1-866-375-6829, RBS Securities Inc. at 1-866-884-2071 or TD Securities (USA) LLC at 1-855-495-9846.

SCHEDULE IV

Significant Subsidiaries of the Company

New Jersey-American Water Company, Inc.
Pennsylvania-American Water Company
Missouri-American Water Company

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Section 3: EX-4.1 (EX-4.1)

Exhibit 4.1

AMERICAN WATER CAPITAL CORP.

OFFICERS' CERTIFICATE

AUGUST 14, 2014

3.400% SENIOR NOTES DUE 2025

PURSUANT TO SECTIONS 102 AND 301 OF THE INDENTURE IDENTIFIED BELOW

The undersigned officers of American Water Capital Corp., a Delaware corporation (the "Company"), acting pursuant to an authorization contained in the unanimous written consent, dated August 11, 2014, of the Board of Directors of the Company (the "Board Resolutions"), and Sections 102 and 301 of the Indenture, dated as of December 4, 2009 (the "Indenture", and unless otherwise defined herein, capitalized terms shall have the meanings ascribed to them therein), between the Company and Wells Fargo Bank, National Association, as Trustee, do hereby certify as follows:

1) There is hereby established under the Indenture the following series of debt securities of the Company, and the terms of such series (the "Series") are as follows:
    a) The Series shall be known and designated as the "3.400% Senior Notes due 2025" of the Company (the "Securities").
    b) The terms of the Securities are as set forth in Annex A hereto.
    c) The Securities shall be redeemable at the option of the Company as specified and subject to the limitations set forth in Annex A hereto.
    d) The Securities shall not be entitled to the benefits of any sinking fund or analogous provisions.
    e) The Securities shall be subject to defeasance as specified and subject to the limitations set forth in Annex A hereto.
    f) The Securities will be issued in the form of one or more fully registered Global Securities which are exchangeable from time to time for fully registered certificated securities in accordance with the terms of the Indenture.
    g) The Company will not pay additional amounts on the Securities held by a non-U.S. person in respect of taxes or similar charges withheld or deducted.
2) The undersigned have read the provisions of the Indenture relating to the authentication and delivery of securities thereunder, including Sections 201, 301 and 303 thereof and the definitions relating thereto;

3) The undersigned have read the Board Resolutions authorizing the issuance of the Securities and the taking of any action by such officers of the Company in connection therewith, and have made such investigation or examination as is necessary, in the opinion of the undersigned, to enable him or her to express an informed opinion as to whether the covenants and conditions precedent to the action to be taken by the Trustee in authenticating and delivering Securities under the Indenture have been complied with;

4) In the opinion of the undersigned, such covenants and conditions precedent have been complied with; and

5) The Securities are “Debt” under the Support Agreement, dated June 22, 2000 and amended as of July 26, 2000, between American Water Works Company, Inc. and the Company.

IN WITNESS WHEREOF, we have hereunto signed our names as of the date first written above.

By: /s/ William D. Rogers
Name: William D. Rogers
Title: Vice President and Treasurer

By: /s/ Thomas S. Wyatt
Name: Thomas S. Wyatt
Title: Vice President and Secretary

ANNEX A

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

American Water Capital Corp.

CUSIP No. 03040WAL9
ISIN No. US03040WAL90

No R. 1
$300,000,000

American Water Capital Corp., a corporation duly organized and existing under the laws of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of Three Hundred Million Dollars on March 1, 2025, and to pay interest thereon from the date of original issuance or from the most recent Interest Payment Date to which interest has been paid or as duly provided for semi-annually on March 1 and September 1, in arrears, commencing March 1, 2015, and on any earlier date of redemption, at the rate of 3.400% per annum, until the principal hereof is paid or made available for payment. Interest on this Security shall be computed assuming a 360-day year consisting of twelve 30-day months.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date shall, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the close of business on the fifteenth day (whether or not a Business Day) next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record

Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any such interest on this Security will be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts (i) with respect to any Global Security, by wire transfer of immediately available funds to the accounts specified by the Holder of such Global Security or (ii) with respect to any certificated Security, by wire transfer of immediately available funds to the respective accounts specified by the Holders of such certificated Security or, if no such account is specified, by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

AMERICAN WATER CAPITAL CORP.

By ____________________________
William D. Rogers
Vice President and Treasurer

TRUSTEE'S CERTIFICATION OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

WELLS FARGO BANK, NATIONAL ASSOCIATION,
As Trustee

By ____________________________
Authorized Signatory

Dated:

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of December 4, 2009 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and Wells Fargo Bank, National Association, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof.

The Company may from time to time, without the consent of the Holders, create and issue Additional Securities, so that each such further issue shall be consolidated and form a single series with the Outstanding Securities of this series.

All or a portion of the Securities may be redeemed at the option of the Company at any time or from time to time. The Redemption Price for the Securities to be redeemed on any redemption date prior to December 1, 2024 will be equal to the greater of the following amounts: (a) 100% of the principal amount of the Securities being redeemed on the redemption date; or (b) the sum of the present values of the remaining scheduled payments of principal and interest on the Securities being redeemed on that redemption date (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis at the Adjusted Treasury Rate (as defined below) plus 15 basis points, as determined by the Reference Treasury Dealer (as defined below), plus, in each case, accrued and unpaid interest thereon to the redemption date. The Redemption Price for the Securities to be redeemed on any redemption date on or after December 1, 2024 will be equal to 100% of the principal amount of the Securities being redeemed on the redemption date plus accrued and unpaid interest thereon to the redemption date. Notwithstanding the foregoing, installments of interest on the Securities that are due and payable on Interest Payment Dates falling on or prior to a redemption date will be payable on the Interest Payment Date to the Holder of such Securities as of the close of business on the relevant Regular Record Date. The Redemption Price will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Calculation of the Redemption Price will be made by the Company or on behalf of the Company by a person designated by the Company; provided that such calculation or the correctness thereof shall not be a duty or obligation of the Trustee.

The Company shall mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each Holder of the Securities to be redeemed and, if less than all of the Securities are to be redeemed, the particular Securities to be redeemed will be selected by the Trustee on a pro rata basis, by lot or in such manner as the Trustee shall deem appropriate and fair in accordance with DTC procedures. Unless the Company defaults in payment of the Redemption Price, on and after the redemption date, interest will cease to accrue on the Securities or portions thereof called for redemption.

"*Adjusted Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Comparable Treasury Issue*" means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the Securities to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Security.

"*Comparable Treasury Price*" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations, or (C) if only one Reference Treasury Dealer Quotation is received, such quotation.

"*Reference Treasury Dealer*" means (A) Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities Inc. and TD Securities (USA) LLC, or their respective affiliates which are primary U.S. Government securities dealers in the United States (each, a "Primary Treasury Dealer"); provided, however, that if any of the foregoing shall cease to be a Primary Treasury Dealer, the Company shall substitute therefor another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) selected by the Company.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third Business Day preceding such redemption date.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and integral multiples of $1,000. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THEREOF.

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Section 4: EX-4.3 (EX-4.3)

Exhibit 4.3

AMERICAN WATER CAPITAL CORP.

OFFICERS' CERTIFICATE

AUGUST 14, 2014

4.300% SENIOR NOTES DUE 2042

PURSUANT TO SECTIONS 102 AND 301 OF THE INDENTURE IDENTIFIED BELOW

The undersigned officers of American Water Capital Corp., a Delaware corporation (the "Company"), pursuant to Sections 102 and 301 of the Indenture, dated as of December 4, 2009 (the "Indenture", and unless otherwise defined herein, capitalized terms shall have the meanings ascribed to them therein), between the Company and Wells Fargo Bank, National Association, as Trustee, do hereby certify as follows:

1) There is hereby authorized to be issued under the Indenture debt securities in the aggregate principal amount of $200,000,000 (the "Additional Securities") which shall constitute a further issuance of, and be consolidated to form a single series with, the $300,000,000 aggregate principal amount of the Company's "4.300% Senior Notes due 2042" that were previously issued on December 17, 2012;

2) The undersigned have read the provisions of the Indenture relating to the authentication and delivery of securities thereunder, including Sections 201, 301 and 303 thereof and the definitions relating thereto;

3) The undersigned have read the Board Resolutions authorizing the issuance of the Additional Securities and the taking of any action by such officers of the Company in connection therewith, and have made such investigation or examination as is necessary, in the opinion of the undersigned, to enable him or her to express an informed opinion as to whether the covenants and conditions precedent to the action to be taken by the Trustee in authenticating and delivering Additional Securities under the Indenture have been complied with;

4) In the opinion of the undersigned, such covenants and conditions precedent have been complied with; and

5) The Additional Securities are “Debt” under the Support Agreement, dated June 22, 2000 and amended as of July 26, 2000, between American Water Works Company, Inc. and the Company.

IN WITNESS WHEREOF, we have hereunto signed our names as of the date first written above.

By: /s/ William D. Rogers
Name: William D. Rogers
Title: Vice President and Treasurer

By: /s/ Thomas S. Wyatt
Name: Thomas S. Wyatt
Title: Vice President and Secretary

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Section 5: EX-5 (EX-5)

Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, NY 10178-0060
Tel. 212.309.6000
Fax: 212.309.6001
www.morganlewis.com

Morgan Lewis
COUNSELORS AT LAW

Exhibit 5

August 14, 2014

American Water Works Company, Inc.
American Water Capital Corp.
1025 Laurel Oak Road
Voorhees, New Jersey 08043

Ladies and Gentlemen:

We have acted as counsel to American Water Works Company, Inc., a Delaware corporation ("AWW"), and American Water Capital Corp., a Delaware corporation (the "Company"), in connection with the issuance by the Company of $300,000,000 aggregate principal amount of its 3.400% Senior Notes due 2025 and $200,000,000 aggregate principal amount of its 4.300% Senior Notes due 2042 (the "Notes"), issued under the Indenture, dated as of December 4, 2009 (the "Indenture"), between the Company and Wells Fargo Bank, National Association, as trustee (the "Trustee"), which Notes have the benefit of the Support Agreement, dated June 22, 2000, as amended July 26, 2000, between the Company and AWW.

We have participated in the preparation of or reviewed (1) the Registration Statement on Form S-3 (Registration Nos. 333-181155 and 333-181155-01) (the "Registration Statement"), which Registration Statement was filed jointly by the Company and AWW with the Securities and Exchange Commission ("Commission") under the Securities Act of 1933, as amended (the "Securities Act"); (2) the prospectus dated May 4, 2012, forming a part of the Registration Statement, as supplemented by a prospectus supplement dated August 11, 2014 relating to the Notes, both such prospectus and prospectus supplement filed pursuant to Rule 424(b) under the Securities Act; (3) the Indenture; (4) the Support Agreement; (5) the certificate of incorporation of the Company; (6) the amended bylaws of the Company; (7) the restated certificate of incorporation of AWW; (8) the amended and restated bylaws of AWW; and (9) such other corporate records, certificates and other documents (including a receipt executed on behalf of the Company acknowledging receipt of the purchase price for the Notes) and such questions of law as we have considered necessary or appropriate for the purposes of this opinion.

Based on the foregoing, we are of the opinion that the Notes and the Support Agreement, as it relates to the Notes, are legally issued, valid, and binding obligations of the Company and AWW, respectively, except as limited or affected by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance or other laws affecting creditors' rights and remedies generally and general principles of equity.

In rendering the foregoing opinion, we have assumed that the certificates representing the Notes conform to specimens examined by us and that the Notes have been duly authenticated, in accordance with the Indenture, by the Trustee under the Indenture and that the signatures on all documents examined by us are genuine, assumptions which we have not independently verified.

We hereby consent to the filing of this opinion as an exhibit to a Current Report on Form 8-K to be filed by AWW on or about August 14, 2014 which will be incorporated by reference in the Registration Statement. In giving the foregoing consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

This opinion is limited to the laws of the State of New York, the General Corporation Law of the State of Delaware and the federal laws of the United States insofar as they bear on matters covered hereby.

Very truly yours,

/s/ Morgan, Lewis & Bockius LLP

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AWK 8-K 8/11/2014

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 11, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

Each of American Water Works Company, Inc.'s and American Water Capital Corp.'s Computation of the Ratio of Earnings to Fixed Charges and Preferred Stock Dividends for the fiscal years ended December 31, 2009, December 31, 2010, December 31, 2011, December 31, 2012 and December 31, 2013 and the six months ended June 30, 2014 is attached as Exhibit 12.1 hereto and is incorporated by reference into this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit	Description
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: August 11, 2014

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

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Section 2: EX-12.1 (EX-12.1)

Exhibit 12.1

AMERICAN WATER WORKS COMPANY, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Twelve Months ended December 31,					Six Months Ended June 30,
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Income (loss) from continuing operations before income taxes	$(106,206)	$429,424	$503,680	$631,258	$605,470	$ 294,495
Fixed Charges:						
Interest, dividends on mandatory redeemable preferred shares and amortization of debt discount and expenses and premium on all indebtedness	306,979	325,135	321,687	316,889	314,908	150,541
Interest factor in rentals	12,735	13,243	11,878	9,958	8,528	3,843
Interest costs from discontinued operations	1,015	1,319	2,266	277	—	—
Total fixed charges	320,729	339,697	335,831	327,124	323,436	154,384
Income from continuing operations plus fixed charges	214,523	769,121	839,511	958,382	928,906	448,879
Preferred dividend requirements	225	225	225	153	19	—
Ratio of pre-tax income (loss) to net income (loss)	0.48	1.68	1.65	1.69	1.64	1.66
Preferred dividend factor (1)	109	379	372	258	31	—
Total fixed charges	320,729	339,697	335,831	327,124	323,436	154,384
Total fixed charges and preferred dividends	320,838	340,076	336,202	327,382	323,467	154,384
Ratio of earnings to combined fixed charges and preferred dividends (2)	—	2.26	2.50	2.93	2.87	2.91

For purposes of calculating the ratio of earnings to fixed charges, earnings consists of income (loss) from continuing operations before income taxes including the effect of allowance for funds used during construction, which we refer to as AFUDC, plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs, and a portion of rent expense that management believes is representative of the interest component of rental expense. Fixed charges have not been reduced for the effect of AFUDC. In addition, we had no preferred stock outstanding for any period presented, and accordingly, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

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(1) Represents the amount of pre-tax earnings required to cover the dividends associated with preferred stock without mandatory redemption requirements.
(2) For the year ended December 31, 2009 earnings were insufficient to cover fixed charges and there was a deficiency of $106.3 million.

AMERICAN WATER CAPITAL CORP.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Twelve Months ended December 31,					Six Months Ended June 30,
	2009	2010	2011	2012	2013	2014
Income (loss) from continuing operations before income taxes	$ —	$ —	$ —	$ —	$ —	$ —
Fixed Charges:						
Interest, dividends on mandatory redeemable preferred shares and amortization of debt discount and expenses and premium on all indebtedness	201,033	206,011	211,982	213,835	225,511	105,403
Total fixed charges	201,033	206,011	211,982	213,835	225,511	105,403
Income from continuing operations plus fixed charges	201,033	206,011	211,982	213,835	225,511	105,403
Total fixed charges	201,033	206,011	211,982	213,835	225,511	105,403
Total fixed charges and preferred dividends	201,033	206,011	211,982	213,835	225,511	105,403
Ratio of earnings to combined fixed charges and preferred dividends	1.00	1.00	1.00	1.00	1.00	1.00

For purposes of calculating the ratio of earnings to fixed charges, earnings consists of income (loss) from continuing operations before income taxes including the effect of allowance for funds used during construction, which we refer to as AFUDC, plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs, and a portion of rent expense that management believes is representative of the interest component of rental expense. Fixed charges have not been reduced for the effect of AFUDC. In addition, we had no preferred stock outstanding for any period presented, and accordingly, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

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AWK 8-K 8/10/2015

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 10, 2015

American Water Works Company, Inc.
(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On August 13, 2015, American Water Capital Corp. ("AWCC"), a wholly owned subsidiary of American Water Works Company, Inc. ("American Water"), sold $225.0 million aggregate principal amount of its 3.400% Senior Notes due 2025 (the "New 2025 Notes") and $325.0 million aggregate principal amount of its 4.300% Senior Notes due 2045 (the "2045 Notes," and, together with the New 2025 Notes, the "Notes") pursuant to an Underwriting Agreement dated August 10, 2015, among AWCC and American Water, and J.P. Morgan Securities LLC, Mitsubishi UFJ Securities (USA) Inc., U.S. Bancorp Investments, Inc. and Wells Fargo Securities LLC, as representatives of the several underwriters named therein. AWCC previously issued on August 14, 2014 $300.0 million aggregate principal amount of 3.400% Senior Notes due 2025 (the "Original 2025 Notes," and together with the New 2025 Notes, the "2025 Notes"). After issuance of the New 2025 Notes, the outstanding principal amount of the 2025 Notes is $525.0 million. The New 2025 Notes have terms that are identical to the terms of the Original 2025 Notes and have the same CUSIP number and are fungible with the Original 2025 Notes. The Notes have the benefit of a support agreement from American Water (the "Support Agreement").

The Notes and the obligations of American Water represented by the Support Agreement were registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-3 (File Nos. 333-203949-01 and 333-203949). The 2045 Notes were sold at a price to the public of 98.684% of the principal amount thereof. The New 2025 Notes were sold at a price to the public of 99.667% of the principal amount thereof; in addition, AWCC received from the purchasers of the New 2025 Notes an amount equal to the interest accrued on the New 2025 Notes from March 1, 2015 to August 13, 2015. At the closing of the offering, the Company received, after deduction of underwriting discounts of 0.650% and 0.875% of the principal amount of the New 2025 Notes and the 2045 Notes, respectively, and before deduction of offering expenses (and not including accrued interest paid by the purchasers of the New 2025 Notes), net proceeds of approximately $540.7 million. AWCC intends to use such net proceeds to lend funds to American Water and its regulated operating subsidiaries, to finance certain redemptions and repayments of long-term debt and to fund the repayment of AWCC's commercial paper.

The Notes were issued pursuant to the Indenture, dated December 4, 2009, by and between AWCC and Wells Fargo Bank, National Association, as trustee, as supplemented by officers' certificates establishing the terms of the Original 2025 Notes and the 2045 Notes, and authorizing the further issuance of the New 2025 Notes.

This Current Report on Form 8-K is being filed to report the closing of the offering summarized herein and to include, as exhibits, certain documents executed in connection with the sale of the Notes.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description of Exhibit
1.1*	Underwriting Agreement, dated August 10, 2015, by and among American Water, AWCC, J.P. Morgan Securities LLC, Mitsubishi UFJ Securities (USA) Inc., U.S. Bancorp Investments, Inc. and Wells Fargo Securities LLC, as representatives of the several underwriters named therein.
4.1*	Officers' Certificate of AWCC, dated August 13, 2015, establishing the terms of the 2045 Notes.
4.2	Officers' Certificate of AWCC, dated August 14, 2014, establishing the terms of the 2025 Notes (incorporated by reference to Exhibit 4.1 to Form 8-K filed August 14, 2014 (File No. 001-34028)).
4.3*	Officers' Certificate of AWCC, dated August 13, 2015, authorizing the issuance of the New 2025 Notes.
5.1*	Opinion of Morgan, Lewis & Bockius LLP.
23.1*	Consent of Morgan, Lewis & Bockius LLP (included in Exhibit 5.1).

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* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: August 13, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
1.1*	Underwriting Agreement, dated August 10, 2015, by and among American Water, AWCC, J.P. Morgan Securities LLC, Mitsubishi UFJ Securities (USA) Inc., U.S. Bancorp Investments, Inc. and Wells Fargo Securities LLC, as representatives of the several underwriters named therein.
4.1*	Officers’ Certificate of AWCC, dated August 13, 2015, establishing the terms of the 2045 Notes.
4.2	Officers’ Certificate of AWCC, dated August 14, 2014, establishing the terms of the 2025 Notes (incorporated by reference to Exhibit 4.1 to Form 8-K filed August 14, 2014 (File No. 001-34028)).
4.3*	Officers’ Certificate of AWCC, dated August 13, 2015, authorizing the issuance of the New 2025 Notes.
5.1*	Opinion of Morgan, Lewis & Bockius LLP.
23.1*	Consent of Morgan, Lewis & Bockius LLP (included in Exhibit 5.1).

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* Filed herewith.

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Section 2: EX-1.1 (EX-1.1)

Exhibit 1.1

American Water Capital Corp.
1025 Laurel Oak Road
Voorhees, New Jersey 08043

3.400% Senior Notes due 2025
4.300% Senior Notes due 2045

Support Agreement from American Water Works Company, Inc.

Underwriting Agreement

August 10, 2015

J.P. Morgan Securities LLC,
Mitsubishi UFJ Securities (USA), Inc.,
U.S. Bancorp Investments, Inc., and
Wells Fargo Securities, LLC,
As representatives of the several Underwriters
named in Schedule I hereto
c/o J.P. Morgan Securities LLC
383 Madison Avenue
New York, New York 10179

Ladies and Gentlemen:

1. American Water Capital Corp., a Delaware corporation (the “**Company**”), proposes, subject to the terms and conditions stated herein, to issue and sell to the underwriters named in Schedule I hereto (the “**Underwriters**”), for whom you (the “**Representatives**”) are acting as representatives, (a) an aggregate of $225,000,000 principal amount of the Company’s 3.400% Senior Notes due 2025 (the “**2025 Notes**”) and (b) an aggregate of $325,000,000 principal amount of the Company’s 4.300% Senior Notes due 2045 (the “**2045 Notes**” and, together with the 2025 Notes, the “**Securities**”).

2. The Company previously entered into a support agreement with American Water Works Company, Inc., a Delaware corporation (the “**Parent**”), dated June 22, 2000 and amended as of July 26, 2000 (as such agreement may be hereinafter amended, modified or supplemented from time to time in accordance with the terms and provisions thereof, the “**Support Agreement**”). Pursuant to the Support Agreement, the Parent has agreed, among other things, to provide funds to the Company if it is unable to make timely payment of principal of and premium, if any, and interest on Debt (as defined in the Support Agreement) issued by the Company.

3. The Company and the Parent, jointly and severally, represent and warrant to, and agree with, each of the Underwriters that:

(a) An “automatic shelf registration statement” as defined under Rule 405 under the Securities Act of 1933, as amended (the “**Act**”), on Form S-3 (File Nos. 333-203949 and 333-203949-01) in respect of the Securities has been filed with the Securities and Exchange Commission (the “**Commission**”) not earlier than three years prior to the date hereof; such registration statement, and any post-effective amendment thereto, each in a form heretofore delivered to the Representatives, became effective on filing; and no stop order suspending the effectiveness of such registration statement or any part thereof has been issued and, to the Parent’s or the Company’s knowledge, no proceeding for that purpose has been initiated or threatened by the Commission, and no notice of objection of the Commission to the use of such registration statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act has been received by the Parent or the Company (the base prospectus filed as part of such registration statement, in the form in which it has most recently been filed with the Commission on or prior to the date of this Agreement, is hereinafter called the “**Basic Prospectus**”; any preliminary prospectus (including any preliminary prospectus supplement) relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act is hereinafter called a “**Preliminary Prospectus**”; the various parts of such registration statement, including all exhibits thereto but excluding the Form T-1 and including any prospectus supplement relating to the Securities that is filed with the Commission and deemed by virtue of Rule 430B to be part of such registration statement, each as amended at the time such part of the registration statement became effective, are hereinafter collectively called the “**Registration Statement**”; the Basic Prospectus, as amended and supplemented immediately prior to the Applicable Time (as defined in Section 3(c) hereof), is hereinafter called the “**Pricing Prospectus**”; the form of the final prospectus relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 7(a) hereof is hereinafter called the “**Prospectus**”; any reference herein to the Basic Prospectus, the Pricing Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act, as of the date of such prospectus; any reference to any amendment or supplement to the Basic Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any post-effective amendment to the Registration Statement, any prospectus supplement relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act and any documents filed under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and incorporated therein, in each case after the date of the Basic Prospectus, such Preliminary Prospectus, or the Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the effective date of the Registration Statement that is incorporated by reference in the Registration

Statement; and any “issuer free writing prospectus” as defined in Rule 433 under the Act relating to the Securities is hereinafter called an “**Issuer Free Writing Prospectus**”);

(b) No order preventing or suspending the use of any Preliminary Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission. Each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the Trust Indenture Act of 1939, as amended (the “**Trust Indenture Act**”), and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Representatives expressly for use therein (the “**Underwriter Information**”);

(c) For the purposes of this Agreement, the “**Applicable Time**” is 4:00 p.m. (Eastern time) on the date of this Agreement. The Pricing Prospectus, as supplemented by the final term sheet prepared and filed pursuant to Section 7(a) hereof, taken together (collectively, the “**Pricing Disclosure Package**”), as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and each Issuer Free Writing Prospectus listed on Schedule II hereto does not conflict with the information contained in the Registration Statement, the Pricing Prospectus or the Prospectus and each such Issuer Free Writing Prospectus, as supplemented by and taken together with the Pricing Disclosure Package as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however,* that the representations and warranties in this clause (c) shall not apply to statements or omissions made in an Issuer Free Writing Prospectus in reliance upon and in conformity with the Underwriter Information;

(d) The documents incorporated by reference in the Pricing Prospectus and the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however,* that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with the Underwriter Information;

(e) The interactive data in eXtensible Business Reporting Language filed as exhibits to the reports included or incorporated by reference in the Registration Statement, the Pricing Disclosure Package and the Prospectus fairly presents the information called for in all material respects and has been prepared in accordance with the Commission's rules and guidelines applicable thereto;

(f) (i) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus will conform, in all material respects to the requirements of the Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and (ii) the Registration Statement and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus do not and will not, as of the applicable effective date as to each part of the Registration Statement and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however,* that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with the Underwriter Information;

(g) (i) Since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus, (A) none of the Parent, the Company or any of the Parent's other subsidiaries has sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any court or governmental action, order or decree, otherwise than as set forth or contemplated in the Pricing Prospectus, and, which could reasonably be expected to, in each case, individually or in the aggregate, have a material adverse effect on the financial condition, stockholders' equity, properties or results of operations of the Parent, the Company and the Parent's other subsidiaries, taken as a whole (a "**Material Adverse Effect**"); and (B) no labor dispute with the employees of the Parent, the Company or any of the Parent's other subsidiaries exists or, to the knowledge of the Company or the Parent, is imminent, which could reasonably be expected to result in a Material Adverse Effect; (ii) since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, otherwise than as set forth or contemplated in the Pricing Prospectus, there has not been (A) any material decrease in the number of shares of outstanding capital stock of the Parent or increase in consolidated long-term debt of the

Parent and its consolidated subsidiaries, or (B) any change, or any development involving a prospective change, in or affecting the general affairs, management, otherwise than as set forth or contemplated in the Pricing Prospectus, that could reasonably be expected to have a Material Adverse Effect;

(h) The Parent, the Company and each of the Parent's other subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Pricing Prospectus or such as do not affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Parent, the Company and each of the Parent's other subsidiaries except, in each case, as would not, individually or in the aggregate, have a Material Adverse Effect; and any real property and buildings held under lease by the Parent, the Company and each of the Parent's other subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Parent, the Company and each of the Parent's other subsidiaries, otherwise than as set forth or contemplated in the Pricing Prospectus or as would not, individually or in the aggregate, have a Material Adverse Effect;

(i) Each of the Parent and the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Pricing Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, have a Material Adverse Effect; and each subsidiary of the Parent listed on Schedule IV hereto (each a "**Significant Subsidiary**") has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation, except where the failure to be in good standing would not, individually or in the aggregate, have a Material Adverse Effect;

(j) All of the issued shares of capital stock of the Parent and the Company have been duly and validly authorized and issued and are fully paid and non-assessable; and all of the issued shares of capital stock of each Significant Subsidiary have been duly and validly authorized and issued, are fully paid and non-assessable and (except for directors' qualifying shares and except as otherwise set forth in the Pricing Prospectus) are owned directly or indirectly by the Parent, free and clear of all liens, encumbrances, equities or claims, except for liens, encumbrances, equities or claims that would not, individually or in the aggregate, have a Material Adverse Effect;

(k) This Agreement has been duly authorized, executed and delivered by each of the Company and the Parent; the Securities have been duly authorized and, when issued and delivered pursuant to this Agreement, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company entitled to the benefits provided by the indenture, dated as of December 4, 2009 (the "**Indenture**"), between the Company and Wells Fargo Bank, National Association, as Trustee (the "**Trustee**"), under which they are to be issued; the Indenture has been duly authorized, executed and delivered by the Company and duly qualified under the Trust Indenture Act and constitutes a valid and legally binding instrument, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; the Support Agreement has been duly authorized, executed and delivered by the Parent and the Company and constitutes a valid and legally binding instrument, enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles; and the Securities, the Indenture and the Support Agreement will conform to the descriptions thereof in the Pricing Prospectus and the Prospectus and will be in substantially the form previously delivered to you;

(l) None of the transactions contemplated by this Agreement (including, without limitation, the use of the proceeds from the sale of the Securities) will violate or result in a violation of Section 7 of the Exchange Act, or any regulation promulgated thereunder, including, without limitation, Regulations T, U, and X of the Board of Governors of the Federal Reserve System;

(m) The issue and sale of the Securities and the compliance by the Parent and the Company with all of the provisions of the Securities, the Indenture, the Support Agreement and this Agreement and the consummation of the transactions herein and therein contemplated (i) will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Parent, the Company or any of the Parent's other subsidiaries is a party or by which the Parent, the Company or any of the Parent's other subsidiaries is bound or to which any of the property or assets of the Parent, the Company or any of the Parent's other subsidiaries is subject, and (ii) will not result in any violation of (A) the provisions of the Certificate of Incorporation or the By-laws, as amended, of the Company or the Restated Certificate of Incorporation or the Amended and Restated Bylaws of the Parent or (B) any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Parent, the Company or any of the Parent's other subsidiaries or any of their properties, except in the case of clauses (i) and (ii)(B) for any conflict, breach, violation or default that would not, individually or in the aggregate, have a Material Adverse Effect or impair the ability of the Parent or the Company to consummate the transactions contemplated by this Agreement; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Securities or the consummation by the Parent or the Company of the transactions contemplated by this Agreement, the Indenture, or the Support Agreement, except (i) the registration under the Act of the Securities, (ii) such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Underwriters and (iii) such consents, approvals, authorizations, orders, registrations or qualifications that have already been obtained or the failure of which to obtain would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or impair the ability of the Parent or the Company to consummate the transactions contemplated by this Agreement;

(n) None of the Parent, the Company or any of the Parent’s other subsidiaries is (A) in violation of its Certificate of Incorporation or By-laws, as amended, in the case of the Company, or its Restated Certificate of Incorporation or Amended and Restated Bylaws, in the case of the Parent, or similar organizational documents, in the case of the Parent’s other subsidiaries, or (B) in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, except in the case of clause (A) (with respect to subsidiaries of the Parent other than the Company and the Significant Subsidiaries) and clause (B), for violations or defaults that would not, individually or in the aggregate, have a Material Adverse Effect;

(o) The statements set forth in the Pricing Prospectus and Prospectus under the captions “Description of the Notes” and “Description of AWCC Debt Securities and American Water Support Agreement”, insofar as they purport to constitute a summary of the terms of the Securities, under the caption “Underwriting”, insofar as they purport to describe the provisions of the documents described therein, under the caption “Certain United States Federal Income Tax Considerations”, insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair in all material respects;

(p) Other than as set forth in the Pricing Prospectus, there are no legal or governmental proceedings pending to which the Parent, the Company or any of the Parent’s other subsidiaries is a party or of which any property of the Parent, the Company or any of the Parent’s other subsidiaries is the subject which would reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect; and, to the best of the Company’s and the Parent’s knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(q) Neither the Parent nor the Company is or, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof, will be an "investment company", as such term is defined in the Investment Company Act of 1940, as amended (the "**Investment Company Act**");

(r) (A) (i) At the time of filing the Registration Statement, (ii) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Sections 13 or 15(d) of the Exchange Act or form of prospectus), and (iii) at the time the Parent or the Company or any person acting on the Parent's or the Company's behalf (within the meaning, for this clause only, of Rule 163(c) under the Act) made any offer relating to the Securities in reliance on the exemption of Rule 163 under the Act, the Parent and the Company were each a "well-known seasoned issuer" as defined in Rule 405 under the Act; and (B) at the earliest time after the filing of the Registration Statement that the Parent or the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the Act) of the Securities, neither the Parent nor the Company was an "ineligible issuer" as defined in Rule 405 under the Act;

(s) PricewaterhouseCoopers LLP, which has certified certain financial statements of the Parent and its subsidiaries, is an independent registered public accounting firm with respect to the Parent and its subsidiaries as required by the Act and the rules and regulations of the Commission thereunder;

(t) Except as disclosed in the Pricing Prospectus, the Parent maintains a system of internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies in all material respects with the requirements of the Exchange Act and has been designed by the Parent's principal executive officer and principal financial officer, or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Except as disclosed in the Pricing Prospectus, the Parent's internal control over financial reporting is effective and the Parent is not aware of any material weaknesses in its internal control over financial reporting;

(u) Except as disclosed in the Pricing Prospectus, since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus, there has been no change in the Parent's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Parent's internal control over financial reporting;

(v) The Parent maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that comply in all material respects with the requirements of the Exchange Act; such disclosure controls and procedures have been designed to ensure that material information relating to the Parent, the Company and each of the Parent's other subsidiaries is made known to the Parent's principal executive officer and principal financial officer by others within those entities; and, except as disclosed in the Pricing Prospectus, such disclosure controls and procedures are effective;

(w) The Parent, the Company and each of the Parent's other subsidiaries possess all permits, licenses, franchises, authorizations, registrations, qualifications and approvals of governmental or regulatory authorities as may be required of them to own their properties and conduct their businesses in the manner described in the Pricing Prospectus (collectively, "**Permits**"), except where the failure to possess such Permits would not, individually or in the aggregate, have a Material Adverse Effect; and the Parent, the Company and each of the Parent's other subsidiaries have fulfilled and performed all of their obligations with respect to such Permits required to have been performed, and no event has occurred which allows or, after notice or lapse of time or both, would allow revocation or termination thereof or result in any other material impairment of the rights of the holder of any such Permit, except, in each case, as disclosed in the Pricing Prospectus or would not, individually or in the aggregate, have a Material Adverse Effect;

(x) To the Parent's and the Company's knowledge, the Parent, the Company and each of the Parent's other subsidiaries own, possess or have the right to employ sufficient patents, patent rights, licenses, inventions, copyrights, know how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, software, systems or procedures), trademarks, service marks and trade names, inventions, computer programs, technical data and information (collectively, the "**Intellectual Property Rights**") reasonably necessary to conduct their businesses as now conducted, except where the failure to own, possess or have the right would not, individually or in the aggregate, have a Material Adverse Effect. None of the Parent, the Company or any of the Parent's other subsidiaries has received any notice of infringement or conflict with asserted rights of others with respect to any of the Intellectual Property Rights, whether or not arising from transactions in the ordinary course of business, except for such infringements or conflicts that would not, individually or in the aggregate, have a Material Adverse Effect. To the Parent's and the Company's knowledge, the use of the Intellectual Property Rights in connection with the business and operations of the Parent, the Company and each of the Parent's other subsidiaries does not infringe on the rights of any person;

(y) Except as disclosed in the Pricing Prospectus, or as would not, individually or in the aggregate, have a Material Adverse Effect, none of the Parent, the Company or any of the Parent's other subsidiaries (i) is in violation of any law, statute, or any rule, regulation, decision or order of any governmental agency or body or any court relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, “**Environmental Laws**”), (ii) owns or operates any real property which, to the Parent’s or the Company’s knowledge, is contaminated with any substance that is regulated under any Environmental Laws, (iii) is, to the Parent’s or the Company’s knowledge, liable for any off-site disposal or contamination pursuant to any Environmental Laws, or (iv) has received any written notice of any claim under any Environmental Laws, and the Parent and the Company are not aware of any pending investigation which could reasonably be expected to lead to such a claim;

(z) The Parent, the Company and each of the Parent’s other subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are, in management’s judgment, prudent and customary in the businesses in which they are engaged; within the past five years, none of the Parent, the Company or any such subsidiary has been refused any insurance coverage sought or applied for; and none of the Parent, the Company or any such other subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not, individually or in the aggregate, have a Material Adverse Effect, except, in each case, as set forth in or contemplated in the Pricing Prospectus;

(aa) Neither the Parent nor the Company has taken or will take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities;

(bb) The Parent is in compliance in all material respects with all provisions of the Sarbanes-Oxley Act of 2002 that are effective and applicable to the Parent as of the date hereof; and

(cc) The Parent, the Company and each of the Parent’s other subsidiaries have filed all federal, state and foreign tax returns, or have filed for extensions of the due dates of such returns, required to be filed and have paid all taxes shown as due thereon except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect; and other than tax deficiencies which the Parent, the Company or any of the Parent’s other subsidiaries is contesting in good faith and for which the Parent, the Company or any of the Parent’s other subsidiaries has provided adequate reserves, there is no tax deficiency that has been asserted in writing against the Parent, the Company or any of the Parent’s other subsidiaries that would, individually or in the aggregate, have a Material Adverse Effect; and the United States federal income tax returns of the Parent, the Company and each of the Parent’s other subsidiaries through the fiscal year ended December 31, 2011 have been settled and no assessment in connection therewith has been made against the Parent, the Company or any of the Parent’s other subsidiaries that would, individually or in the aggregate, have a Material Adverse Effect.

Any certificate signed by any authorized officer of the Parent or the Company and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Parent and the Company, as to matters covered thereby, to each Underwriter.

4. Subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, (a) at a purchase price of 99.017% of the principal amount thereof, including accrued interest, from March 1, 2015 to the Time of Delivery (as defined in Section 6(a)), the principal amount of the 2025 Notes set forth opposite the name of such Underwriter in Schedule I hereto and (b) at a purchase price of 97.809% of the principal amount thereof, including accrued interest, if any, from August 13, 2015 to the Time of Delivery, the principal amount of the 2045 Notes set forth opposite the name of such Underwriter in Schedule I hereto.

5. Upon the authorization by the Company of the release of the Securities, the several Underwriters propose to offer the Securities for sale upon the terms and conditions set forth in the Prospectus.

6. (a) Each series of Securities to be purchased by each Underwriter hereunder will be represented by one or more definitive global securities in book-entry form which will be deposited by or on behalf of the Company with The Depository Trust Company ("**DTC**") or its designated custodian. The Company will deliver the Securities to the Representatives, for the account of the Underwriters, against payment by or on behalf of the Underwriters of the purchase price therefor by wire transfer of Federal (same day) funds, by causing DTC to credit the Securities to the account of the Representatives at DTC. The Company will cause forms of the certificates representing the Securities to be made available to the Representatives for checking at least twenty-four hours prior to the Time of Delivery hereunder at the office of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York 10004 (the "**Closing Location**"). The time and date of such delivery and payment shall be 9:30 a.m., Eastern time, on August 13, 2015 or such other time and date as the Representatives and the Company may agree upon in writing. Such time and date is herein called the "**Time of Delivery**".

(b) The documents to be delivered at the Time of Delivery by or on behalf of the parties hereto pursuant to Section 10 hereof, including the cross receipt for the Securities and any additional documents requested by the Underwriters pursuant to Section 10 hereof, will be delivered at the Closing Location, and the Securities will be delivered through the facilities of DTC, all at the Time of Delivery. A meeting will be held at the Closing Location at 2:00 p.m., Eastern time, on the New York Business Day next preceding the Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Agreement, "**New York Business Day**" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York City are generally authorized or obligated by law or executive order to close.

7. Each of the Parent and the Company, jointly and severally, agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement and to make no further amendment or any supplement to the Registration Statement, the Basic Prospectus or the Prospectus prior to the Time of Delivery without the consent of the Representatives promptly after reasonable notice thereof (which consent shall not be unreasonably withheld); to advise the Representatives, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any amendment or supplement to the Prospectus has been filed and to furnish the Representatives with copies thereof; to prepare a final term sheet, containing solely a description of the Securities, in a form substantially consistent with Schedule III hereto and to file such term sheet pursuant to Rule 433(d) under the Act within the time required by such Rule; to file promptly all other material required to be filed by the Company with the Commission pursuant to Rule 433(d) under the Act; to file promptly all reports and any definitive proxy or information statements required to be filed by the Parent or the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required in connection with the offering or sale of the Securities; to advise the Representatives, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or other prospectus in respect of the Securities, of any notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or other prospectus or suspending any such qualification, to promptly use its best efforts to obtain the withdrawal of such order; and in the event of any such issuance of a notice of objection, promptly to take such steps including, without limitation, amending the Registration

Statement or filing a new registration statement, at its own expense, as may be necessary to permit offers and sales of the Securities by the Underwriters (references herein to the Registration Statement shall include any such amendment or new registration statement);

(b) If by the third anniversary (the "**Renewal Deadline**") of the initial effective date of the Registration Statement, any of the Securities remain unsold by the Underwriters, the Parent will file, if it has not already done so and is eligible to do so, a new automatic shelf registration statement relating to the Securities, in a form satisfactory to the Representatives. If at the Renewal Deadline the Parent is no longer eligible to file an automatic shelf registration statement, the Parent will, if it has not already done so, file a new shelf registration statement relating to the Securities, in a form satisfactory to the Representatives and will use its best efforts to cause such registration statement to be declared effective within 180 days after the Renewal Deadline. The Parent will take all other action necessary or appropriate to permit the public offering and sale of the Securities to continue as contemplated in the expired registration statement relating to the Securities. References herein to the Registration Statement shall include such new automatic shelf registration statement or such new shelf registration statement, as the case may be;

(c) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Securities for offering and sale under the securities laws of such U.S. jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities, provided that in connection therewith neither the Parent nor the Company shall be required to qualify as a foreign corporation or to file a general consent to service of process or subject itself to taxation for doing business in any jurisdiction;

(d) To use reasonable efforts to furnish to the Underwriters as soon as practicable after the date of this Agreement but no later than 5:30 p.m., Eastern time, on the second New York Business Day immediately succeeding the date of this Agreement and from time to time, with printed and electronic copies of the Prospectus in such quantities as the Representatives may reasonably request, and, if the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is, based on advice of counsel, required at any time during the period from the time of issue of the Prospectus until the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Securities and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act or the Exchange Act, to notify the Representatives and upon the request of the Representatives to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many printed and electronic copies as the Representatives may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance; and in case any Underwriter is required to deliver a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) in connection with sales of any of the Securities at any time nine months or more after the time of issue of the Prospectus, upon the request of the Representatives but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many printed and electronic copies as the Representatives may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(e) To make generally available to its securityholders as soon as practicable, but in any event not later than sixteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Parent and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations of the Commission thereunder (including, at the option of the Parent, Rule 158);

(f) During the period beginning from the date hereof and continuing until the Time of Delivery, not to offer, sell, contract to sell, or otherwise dispose of, except as provided hereunder, any securities of the Parent or the Company that are substantially similar to the Securities without the Representatives’ prior written consent;

(g) To take all reasonable action necessary to enable Standard & Poor’s Ratings Services, a division of Standard & Poor’s Financial Services, LLC, and Moody’s Investors Service Inc. to provide their respective credit ratings of the Securities;

(h) During a period of three years from the effective date of the Registration Statement, to furnish to the holders of the Securities as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders’ equity and cash flows of the Parent and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), to make available to the holders of the Securities consolidated summary financial information of the Parent and its subsidiaries for such quarter in reasonable detail; *provided, however*, that the Parent and the Company may satisfy the requirements of this subsection by making any such reports, communications or information available on its web site or by filing such information with the Commission via EDGAR or any successor filing system thereto;

(i) During a period of three years from the effective date of the Registration Statement, to furnish to the Representatives copies of all reports or other communications (financial or other) furnished to the holders of the Securities, and to deliver to the Representatives as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Parent or the Company is listed; *provided*, *however*, that the Parent and the Company may satisfy the requirements of this subsection by making any such reports, communications or information available on its web site or by filing such information with the Commission via EDGAR or any successor filing system thereto;

(j) To use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Pricing Prospectus under the caption "Use of Proceeds";

(k) To pay the required Commission filing fees relating to the Securities within the time required by Rule 456(b)(1) under the Act without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) under the Act; and

(l) Upon request of any Underwriter, to furnish, or cause to be furnished, to such Underwriter an electronic version of the Parent's trademarks, servicemarks and corporate logo for use on the website, if any, operated by such Underwriter for the purpose of facilitating the on-line offering of the Securities (the "**License**"); *provided*, *however*, that the License shall be used solely for the purpose described above, is granted without any fee and may not be assigned or transferred.

8. (a) (i) Each of the Parent and the Company represents and agrees that, other than the final term sheet in a form substantially consistent with Schedule III hereto and filed pursuant to Section 7(a) hereof, without the prior written consent of the Representatives, it has not made and will not make any offer relating to the Securities that would constitute a "free writing prospectus" as defined in Rule 405 under the Act; (ii) each Underwriter represents and agrees that, without the prior written consent of the Company, other than one or more term sheets relating to the Securities substantially consistent with Schedule III hereto, containing no "issuer information" (as defined in Rule 433(h)(2) under the Act) that was not included in the Preliminary Prospectus or Pricing Prospectus, it has not made and will not make any offer relating to the Securities that would constitute a free writing prospectus; and (iii) any such free writing prospectus the use of which has been consented to by the Company and the Representatives is listed on Schedule II hereto;

(b) The Company has complied and will comply with the requirements of Rule 433 under the Act applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission or retention where required and legending; and the Company represents that it has satisfied and agrees that it will satisfy the conditions under Rule 433 under the Act to avoid a requirement to file with the Commission any electronic road show; and

(c) The Company agrees that if at any time following issuance of an Issuer Free Writing Prospectus any event occurred or occurs as a result of which such Issuer Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or, when taken together with the Pricing Prospectus, would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to the Representatives and, if requested by the Representatives, will prepare and furnish without charge to each Underwriter an Issuer Free Writing Prospectus or other document which will correct such conflict, statement or omission; *provided, however*, that this representation and warranty shall not apply to any statements or omissions in an Issuer Free Writing Prospectus made in reliance upon and in conformity with the Underwriter Information.

9. Each of the Parent and the Company covenants and agrees with the several Underwriters that the Parent and the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Parent’s and the Company’s counsel and accountants in connection with the registration of the Securities under the Act and all other expenses in connection with the preparation, printing, reproduction and filing of the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, any Issuer Free Writing Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any agreement among Underwriters, this Agreement, the Indenture, the Support Agreement, any Blue Sky survey, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Securities; (iii) all expenses in connection with the qualification of the Securities for offering and sale under state securities laws as provided in Section 7(c) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with any Blue Sky survey; (iv) any fees charged by securities rating services for rating the Securities; (v) the cost of preparing the Securities; (vi) the fees and expenses of the Trustee and any agent of the Trustee and the fees and disbursements of counsel for the Trustee in connection with the Indenture, the Securities and the Support Agreement; and (vii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section; *provided, however,* that reimbursements to the Underwriters, if any, shall be limited to expenses actually incurred and *provided further* that in the case of clause (iii), the Parent and the Company shall not be requested to cover expenses of counsel for the Underwriters in excess of $5,000 in the aggregate.

10. The obligations of the Underwriters hereunder shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Parent and the Company herein are, at and as of the Time of Delivery, true and correct, the condition that the Parent and the Company shall have performed all of their obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 7(a) hereof; the final term sheet in a form substantially consistent with Schedule III hereto, and any other material required to be filed by the Company pursuant to Rule 433(d) under the Act, shall have been filed with the Commission within the applicable time period prescribed for such filing by Rule 433; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission and no notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act shall have been received; no stop order suspending or preventing the use of the Prospectus or any Issuer Free Writing Prospectus shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to the reasonable satisfaction of the Representatives;

(b) Sullivan & Cromwell LLP, counsel for the Underwriters, shall have furnished to the Representatives such written opinions, dated the Time of Delivery, in form and substance satisfactory to the Representatives, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Morgan, Lewis & Bockius LLP, counsel for the Company, shall have furnished to the Representatives their written opinion and 10b-5 statement, each dated the Time of Delivery, in the form attached as Annexes IIA and IIB hereto;

(d) Jeffrey M. Taylor, Secretary of the Company, shall have furnished to the Representatives his written opinion, dated the Time of Delivery, in the form attached as Annex III hereto;

(e) (i) On the date of this Agreement, (ii) on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and (iii) at the Time of Delivery, PricewaterhouseCoopers LLP shall have furnished to the Representatives a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to the Representatives, to the effect set forth in Annex I hereto;

(f) (i) Since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus, (A) none of the Parent, the Company or any of the Parent's other subsidiaries has sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any court or governmental action, order or decree, otherwise than as set forth or contemplated in the Pricing Prospectus; and (B) no labor dispute with the employees of the Parent, the Company or any of the Parent's other subsidiaries exists or, to the knowledge of the Company or the Parent, is imminent; and (ii) since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, otherwise than as set forth or contemplated in the Pricing Prospectus, there has not been (A) any material decrease in the number of shares of outstanding capital stock of the Parent or increase in consolidated long-term debt of the Parent and its consolidated subsidiaries, or (B) any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Parent, the Company and the Parent's other subsidiaries, otherwise than as set forth or contemplated in the Pricing Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities on the terms and in the manner contemplated in the Prospectus;

(g) On or after the Applicable Time (i) no downgrading shall have occurred in the rating accorded the Parent's or the Company's debt securities by Standard & Poor's Ratings Services or Moody's Investors Service, Inc., each a "nationally recognized statistical rating organization", as that term is defined by the Commission pursuant to Section 3(a)(62) of the Exchange Act, and (ii) neither such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Parent's or the Company's debt securities;

(h) On or after the Applicable Time there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange; (ii) a suspension or material limitation in trading in the Parent's or the Company's securities on the New York Stock Exchange; (iii) a general moratorium on commercial banking activities declared by Federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war; or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (iv) or (v) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities on the terms and in the manner contemplated in the Prospectus; and

(i) Each of the Parent and the Company shall have furnished or caused to be furnished to the Representatives at the Time of Delivery certificates of officers of the Parent and the Company reasonably satisfactory to the Representatives as to the accuracy of the representations and warranties of the Parent and the Company, respectively, herein at and as of the Time of Delivery, as to the performance by the Parent and the Company of all their respective obligations hereunder to be performed at or prior to the Time of Delivery, as to the matters set forth in subsections (a), (f) and (g) of this Section and as to such other matters as the Representatives may reasonably request.

11. (a) The Parent and the Company will, jointly and severally, indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) under the Act, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; *provided*, *however*, that the Parent and the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with the Underwriter Information.

(b) Each Underwriter will indemnify and hold harmless the Parent and the Company against any losses, claims, damages or liabilities to which the Parent or the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, the Basic Prospectus, any Preliminary Prospectus, the Pricing Prospectus, the Pricing Disclosure Package or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with the Underwriter Information; and will reimburse the Parent and the Company for any legal or other expenses reasonably incurred by the Parent or the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. Notwithstanding the indemnifying party’s election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ one separate counsel, and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate firm (in addition to one local counsel in each jurisdiction) if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) in an action where both the indemnifying and the indemnified party are actual or potential defendants, the indemnified party shall have reasonably concluded that there are actual or potential conflicting interests between the indemnifying party and the indemnified party, including situations in which there may be one or more legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party. No indemnified party shall, without the written consent of the indemnifying party (such consent not to be unreasonably withheld), effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder.

(d) If the indemnification provided for in this Section 11 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Parent and the Company on the one hand and the Underwriters on the other from the offering of the Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Parent and the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Parent and the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Parent and the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Parent or the Company on the one hand or the Underwriter Information on the other and the parties’ relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Parent, the Company, and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Parent and the Company under this Section 11 shall be in addition to any liability which the Parent and the Company may otherwise have and shall extend, upon the same terms and conditions, to the directors, officers, employees and agents of each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act and each broker-dealer affiliate of any Underwriter; and the obligations of the Underwriters under this Section 11 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer, director and employee of the Parent and the Company and to each person, if any, who controls the Parent or the Company within the meaning of the Act.

12. (a) If any Underwriter shall default in its obligation to purchase the Securities which it has agreed to purchase hereunder, the Representatives may in their discretion arrange for any of the Representatives or another party or other parties to purchase such Securities on the terms contained herein. If within thirty-six hours after such default by any Underwriter the Representatives do not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to the Representatives to purchase such Securities on such terms. In the event that, within the respective prescribed periods, the Representatives notify the Company that they have so arranged for the purchase of such Securities, or the Company notifies the Representatives that it has so arranged for the purchase of such Securities, the Representatives or the Company shall have the right to postpone the Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to prepare promptly any amendments to the Registration Statement or the Prospectus which in the opinion of the Representatives may thereby be made necessary. The term

"Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Securities.

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased does not exceed one-eleventh of the aggregate principal amount of all the Securities, then the Company shall have the right to require each non-defaulting Underwriter to purchase the principal amount of Securities which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the principal amount of Securities which such Underwriter agreed to purchase hereunder) of the Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representatives and the Company as provided in subsection (a) above, the aggregate principal amount of Securities which remains unpurchased exceeds one-eleventh of the aggregate principal amount of all the Securities, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Securities of a defaulting Underwriter or Underwriters, then this Agreement shall thereupon terminate without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 9 hereof and the indemnity and contribution agreements in Section 11 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

13. The respective indemnities, agreements, representations, warranties and other statements of the Parent, the Company and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, the Parent or the Company, or any officer or director or controlling person of the Parent or the Company and shall survive delivery of and payment for the Securities.

14. If for any reason, other than a default by the Underwriters in their obligation to purchase the Securities, any Securities are not delivered by or on behalf of the Company as provided herein, the Company will reimburse the Underwriters through the Representatives for all reasonable expenses approved in writing by the Representatives, including reasonable fees and disbursements of counsel, incurred by the Underwriters in making preparations for the purchase,

sale and delivery of the Securities not so delivered, but the Parent and the Company shall then be under no further liability to the Underwriters except as provided in Sections 9 and 11 hereof.

15. In all dealings hereunder, the Representatives shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by the Representatives jointly.

16. All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail or facsimile transmission to the Representatives in care of: J.P. Morgan Securities LLC, 383 Madison Avenue, New York, NY 10179, Attn: Investment Grade Syndicate Desk— 3rd floor, Fax: (212) 834-6981; Mitsubishi UFJ Securities (USA), Inc., 1221 Avenue of the Americas, 6th floor, New York, NY 10020, Fax: (646) 434-3455; U.S. Bancorp Investments, Inc., 214 North Tryon Street, Charlotte, NC 28202, Fax: (704) 335-4672; and Wells Fargo Securities, LLC, 550 South Tryon Street, 5th Floor, Charlotte, NC 28202, Attn: Transaction Management, Fax: (704) 410-0326; and if to the Parent or the Company shall be delivered or sent by mail or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary. Any such statements, requests, notices or agreements shall take effect upon receipt thereof. In accordance with the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Underwriters are required to obtain, verify and record information that identifies their respective clients, including the Parent and the Company, which information may include the name and address of their respective clients, as well as other information that will allow the Underwriters to properly identify their respective clients.

17. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Parent and the Company and, to the extent provided in Sections 11 and 13 hereof, the officers and directors of the Parent and the Company and each person who controls the Parent and the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Securities from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

18. Time shall be of the essence of this Agreement. As used herein, the term “**business day**” shall mean any day when the Commission’s office in Washington, D.C. is open for business.

19. The Parent and the Company acknowledge and agree that (i) the purchase and sale of the Securities pursuant to this Agreement is an arm’s-length commercial transaction between the Parent and the Company, on the one hand, and the several Underwriters, on the other, (ii) in connection therewith and

with the process leading to such transaction each Underwriter is acting solely as a principal and not the agent or fiduciary of the Parent or the Company, (iii) no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Parent or the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Parent or the Company) or any other obligation to the Parent or the Company except the obligations expressly set forth in this Agreement and (iv) the Parent and the Company have consulted their own legal and financial advisors to the extent they deemed appropriate. The Parent and the Company agree that they will not claim that the Underwriters, or any of them, has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Parent or the Company, in connection with such transaction or the process leading thereto.

20. This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Parent, the Company and the Underwriters, or any of them, with respect to the subject matter hereof.

21. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

22. The Parent, the Company and each of the Underwriters hereby irrevocably waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

23. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

24. Notwithstanding anything herein to the contrary, each of the Parent and the Company are authorized to disclose to any persons the tax treatment and tax structure of the potential transaction and all materials of any kind (including tax opinions and other tax analyses) provided to the Parent and the Company relating to that treatment and structure, without the Underwriters imposing any limitation of any kind. However, any information relating to the tax treatment and tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent necessary to enable any person to comply with securities laws. For this purpose, “tax treatment” means U.S. Federal and State income tax treatment, and “tax structure” is limited to any facts that may be relevant to that treatment.

If the foregoing is in accordance with your understanding, please sign and return to us five counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement between each of the Underwriters, the Parent and the Company.

Very truly yours,

AMERICAN WATER CAPITAL CORP.

By: /s/ Deborah A. Degillio
Name: Deborah A. Degillio
Title: Vice President and Treasurer

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ Linda G. Sullivan
Name: Linda G. Sullivan
Title: Senior Vice President and Chief Financial Officer

Accepted as of the date hereof:

J.P. Morgan Securities LLC

Mitsubishi UFJ Securities (USA), Inc.

U.S. Bancorp Investments, Inc.

Wells Fargo Securities, LLC

On behalf of each of the Underwriters

J.P. MORGAN SECURITIES LLC

By: /s/ Maria Sramek
Name: Maria Sramek
Title: Executive Director

MITSUBISHI UFJ SECURITIES (USA), INC.

By: /s/ Richard Testa
Name: Richard Testa
Title: Managing Director

U.S. BANCORP INVESTMENTS, INC.

By: /s/ Mark Ledford
Name: Mark Ledford
Title: Vice President

WELLS FARGO SECURITIES, LLC

By: /s/ Carolyn Hurley
Name: Carolyn Hurley
Title: Director

SCHEDULE I

	Principal Amount of the 2025 Notes to be Purchased	Principal Amount of the 2045 Notes to be Purchased
J.P. Morgan Securities LLC	$ 45,000,000	$ 65,000,000
Wells Fargo Securities, LLC	40,500,000	58,500,000
Mitsubishi UFJ Securities (USA), Inc.	36,000,000	52,000,000
U.S. Bancorp Investments, Inc.	31,500,000	45,500,000
Regions Securities LLC	22,500,000	32,500,000
Santander Investment Securities Inc.	22,500,000	32,500,000
BB&T Capital Markets, a division of BB&T Securities, LLC	10,125,000	14,625,000
PNC Capital Markets LLC	10,125,000	14,625,000
CastleOak Securities, L.P.	2,250,000	3,250,000
Drexel Hamilton, LLC	2,250,000	3,250,000
Samuel A. Ramirez & Company, Inc.	2,250,000	3,250,000
Total	$ 225,000,000	$ 325,000,000
Total	$550,000,000	

SCHEDULE II

(a) Issuer Free Writing Prospectuses included in the Pricing Disclosure Package:

Final term sheet attached hereto as Schedule III.

(b) Issuer Free Writing Prospectuses not included in the Pricing Disclosure Package:

Net road show dated August 10, 2015.

SCHEDULE III

August 10, 2015

American Water Capital Corp.
American Water Works Company, Inc.

$225,000,000 3.400% Senior Notes due 2025
$325,000,000 4.300% Senior Notes due 2045

Term Sheet

Issuer:	American Water Capital Corp.
Support Provider:	American Water Works Company, Inc.
Security:	3.400% Senior Notes due 2025 (the “**2025 Notes**”) 4.300% Senior Notes due 2045 (the “**2045 Notes**”)
Size:	$225,000,000 for the 2025 Notes $325,000,000 for the 2045 Notes
Trade Date:	August 10, 2015
Settlement Date:	August 13, 2015 (T+3)
Maturity Date:	March 1, 2025 for the 2025 Notes September 1, 2045 for the 2045 Notes
Benchmark Treasury:	UST 2.125% due May 15, 2025 for the 2025 Notes UST 2.500% due February 15, 2045 for the 2045 Notes
Benchmark Treasury Yield:	2.241% for the 2025 Notes 2.929% for the 2045 Notes
Spread to Benchmark Treasury:	+120 bps for the 2025 Notes +145 bps for the 2045 Notes
Yield to Maturity:	3.441% for the 2025 Notes 4.379% for the 2045 Notes
Coupon:	3.400% for the 2025 Notes 4.300% for the 2045 Notes
Price to Public:	99.667% for the 2025 Notes, plus accrued interest of $3,442,500.00 in the aggregate from March 1, 2015 98.684% for the 2045 Notes
Interest Payment Dates:	2025 Notes: March 1 and September 1 of each year, beginning on September 1, 2015 2045 Notes: March 1 and September 1 of each year, beginning on March 1, 2016
Redemption Provisions:	
Make whole call:	Treasury +15 bps for the 2025 Notes Treasury +25 bps for the 2045 Notes
Par call:	On or after December 1, 2024 for the 2025 Notes On or after March 1, 2045 for the 2045 Notes
CUSIP:	2025 Notes: 03040W AL9 2045 Notes: 03040W AM7
ISIN:	2025 Notes: US03040W AL90 2045 Notes: US03040WAM73

Ratings (1):	[Intentionally Omitted]
Joint Book-Running Managers:	J.P. Morgan Securities LLC Mitsubishi UFJ Securities (USA), Inc. U.S. Bancorp Investments, Inc. Wells Fargo Securities, LLC Regions Securities LLC Santander Investment Securities Inc.
Co-Managers:	BB&T Capital Markets, a division of BB&T Securities, LLC CastleOak Securities, L.P. Drexel Hamilton, LLC PNC Capital Markets LLC Samuel A. Ramirez & Company, Inc.

(1) Neither of these ratings is a recommendation to buy, sell or hold these securities. Each rating may be subject to revision or withdrawal at any time, and should be evaluated independently of any other rating.

The Issuer and the Support Provider have filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the Issuer and the Support Provider have filed with the SEC for more complete information about the Issuer, the Support Provider and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, any underwriter participating in the offering will arrange to send you the prospectus if you request it by calling J.P. Morgan Securities LLC at (212) 834-4533, Mitsubishi UFJ Securities (USA), Inc. at (877) 649-6848, U.S. Bancorp Investments, Inc. at (877) 558-2607 or Wells Fargo Securities, LLC at 1-800-645-3751.

SCHEDULE IV

Significant Subsidiaries of the Company

New Jersey-American Water Company, Inc.
Pennsylvania-American Water Company
Missouri-American Water Company

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Section 3: EX-4.1 (EX-4.1)

Exhibit 4.1

AMERICAN WATER CAPITAL CORP.

OFFICERS' CERTIFICATE

AUGUST 13, 2015

4.300% SENIOR NOTES DUE 2045

PURSUANT TO SECTIONS 102 AND 301 OF THE INDENTURE IDENTIFIED BELOW

The undersigned officers of American Water Capital Corp., a Delaware corporation (the "Company"), acting pursuant to an authorization contained in the unanimous written consent, dated August 10, 2015, of the Board of Directors of the Company (the "Board Resolutions"), and Sections 102 and 301 of the Indenture, dated as of December 4, 2009 (the "Indenture", and unless otherwise defined herein, capitalized terms shall have the meanings ascribed to them therein), between the Company and Wells Fargo Bank, National Association, as Trustee, do hereby certify as follows:

1) There is hereby established under the Indenture the following series of debt securities of the Company, and the terms of such series (the "Series") are as follows:

   a) The Series shall be known and designated as the "4.300% Senior Notes due 2045" of the Company (the "Securities");

   b) The terms of the Securities are as set forth in Annex A hereto;

   c) The Securities shall be redeemable at the option of the Company as specified and subject to the limitations set forth in Annex A hereto;

   d) The Securities shall not be entitled to the benefits of any sinking fund or analogous provisions;

   e) The Securities shall be subject to defeasance as specified and subject to the limitations set forth in Annex A hereto;

   f) The Securities will be issued in the form of one or more fully registered Global Securities which are exchangeable from time to time for fully registered certificated securities in accordance with the terms of the Indenture; and

   g) The Company will not pay additional amounts on the Securities held by a non-U.S. person in respect of taxes or similar charges withheld or deducted.

2) The undersigned have read the provisions of the Indenture relating to the authentication and delivery of securities thereunder, including Sections 201, 301 and 303 thereof and the definitions relating thereto;

3) The undersigned have read the Board Resolutions authorizing the issuance of the Securities and the taking of any action by such officers of the Company in connection therewith, and have made such investigation or examination as is necessary, in the opinion of the undersigned, to enable the undersigned to express an informed opinion as to whether the covenants and conditions precedent to the action to be taken by the Trustee in authenticating and delivering Securities under the Indenture have been complied with;

4) In the opinion of the undersigned, such covenants and conditions precedent have been complied with; and

5) The Securities are “Debt” under the Support Agreement, dated June 22, 2000 and amended as of July 26, 2000, between American Water Works Company, Inc. and the Company.

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IN WITNESS WHEREOF, we have hereunto signed our names as of the date first written above.

By: /s/ Deborah A. Degillio
Name: Deborah A. Degillio
Title: Vice President and Treasurer

By: /s/ Jeffrey M. Taylor
Name: Jeffrey M. Taylor
Title: Secretary

ANNEX A

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

American Water Capital Corp.
4.300% Senior Notes due 2045

CUSIP No. 03040W AM7
ISIN No. US03040WAM73

No R. 1
$325,000,000

American Water Capital Corp., a corporation duly organized and existing under the laws of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of Three Hundred Twenty-Five Million Dollars on September 1, 2045, and to pay interest thereon from August 13, 2015 or from the most recent Interest Payment Date to which interest has been paid or as duly provided for semi-annually on March 1 and September 1, in arrears, commencing March 1, 2016, and on any earlier date of redemption, at the rate of 4.300% per annum, until the principal hereof is paid or made available for payment. Interest on this Security shall be computed assuming a 360-day year consisting of twelve 30-day months.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date shall, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the close of business on the fifteenth day (whether or not a Business Day) next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any such interest on this Security will be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts (i) with respect to any Global Security, by wire transfer of immediately available funds to the accounts specified by the Holder of such Global Security or (ii) with respect to any certificated Security, by wire transfer of immediately available funds to the respective accounts specified by the Holders of such certificated Security or, if no such account is specified, by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

AMERICAN WATER CAPITAL CORP.

By ______________________________

TRUSTEE'S CERTIFICATION OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

WELLS FARGO BANK, NATIONAL ASSOCIATION,
As Trustee

By ______________________________
Authorized Signatory

Dated:

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of December 4, 2009 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and Wells Fargo Bank, National Association, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof.

The Company may from time to time, without the consent of the Holders, create and issue Additional Securities, so that each such further issue shall be consolidated and form a single series with the Outstanding Securities of this series.

All or a portion of the Securities may be redeemed at the option of the Company at any time or from time to time. The Redemption Price for the Securities to be redeemed on any redemption date prior to March 1, 2045 will be equal to the greater of the following amounts: (a) 100% of the principal amount of the Securities being redeemed on the redemption date; or (b) the sum of the present values of the remaining scheduled payments of principal and interest on the Securities being redeemed on that redemption date that would be payable if such Securities matured on March 1, 2045 (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis at the Adjusted Treasury Rate (as defined below) plus 25 basis points, as determined by the Reference Treasury Dealer (as defined below), plus, in each case, accrued and unpaid interest thereon to the redemption date. The Redemption Price for the Securities to be redeemed on any redemption date on or after March 1, 2045 will be equal to 100% of the principal amount of the Securities being redeemed on the redemption date plus accrued and unpaid interest thereon to the redemption date. Notwithstanding the foregoing, installments of interest on the Securities that are due and payable on Interest Payment Dates falling on or prior to a redemption date will be payable on the Interest Payment Date to the Holder of such Securities as of the close of business on the relevant Regular Record Date. The Redemption Price will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Calculation of the Redemption Price will be made by the Company or on behalf of the Company by a person designated by the Company; provided that such calculation or the correctness thereof shall not be a duty or obligation of the Trustee.

The Company shall mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each Holder of the Securities to be redeemed and, if less than all of the Securities are to be redeemed, the particular Securities to be redeemed will be selected by the Trustee on a pro rata basis, by lot or in such manner as the Trustee shall deem appropriate and fair in accordance with DTC procedures. Unless the Company defaults in payment of the Redemption Price, on and after the redemption date, interest will cease to accrue on the Securities or portions thereof called for redemption.

"*Adjusted Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Comparable Treasury Issue*" means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the Securities to be redeemed, calculated as if the maturity date of the Securities were March 1, 2045 (the "Remaining Life") that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the Remaining Life of such Security.

"*Comparable Treasury Price*" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations, or (C) if only one Reference Treasury Dealer Quotation is received, such quotation.

"*Reference Treasury Dealer*" means (A) J.P. Morgan Securities LLC, one Primary Treasury Dealer selected by U.S. Bancorp Investments, Inc. and one primary Treasury Dealer selected by Wells Fargo Securities, LLC, or their respective affiliates which are primary U.S. Government securities dealers in the United States (each, a "Primary Treasury Dealer"); provided, however, that if any of the foregoing shall cease to be a Primary Treasury Dealer, the Company shall substitute therefor another Primary Treasury Dealer; and (B) any other Primary Treasury Dealer(s) selected by the Company.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third Business Day preceding such redemption date.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and integral multiples of $1,000. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THEREOF.

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Section 4: EX-4.3 (EX-4.3)

Exhibit 4.3

AMERICAN WATER CAPITAL CORP.

OFFICERS' CERTIFICATE

AUGUST 13, 2015

3.400% SENIOR NOTES DUE 2025

PURSUANT TO SECTIONS 102 AND 301 OF THE INDENTURE IDENTIFIED BELOW

The undersigned officers of American Water Capital Corp., a Delaware corporation (the "Company"), pursuant to Sections 102 and 301 of the Indenture, dated as of December 4, 2009 (the "Indenture", and unless otherwise defined herein, capitalized terms shall have the meanings ascribed to them therein), between the Company and Wells Fargo Bank, National Association, as Trustee, do hereby certify as follows:

1) There is hereby authorized to be issued under the Indenture debt securities in the aggregate principal amount of $225,000,000 (the "Additional Securities") which shall constitute a further issuance of, and be consolidated to form a single series with, the $300,000,000 aggregate principal amount of the Company's "3.400% Senior Notes due 2025" that were previously issued on August 14, 2014;

2) The undersigned have read the provisions of the Indenture relating to the authentication and delivery of securities thereunder, including Sections 201, 301 and 303 thereof and the definitions relating thereto;

3) The undersigned have read the Board Resolutions authorizing the issuance of the Additional Securities and the taking of any action by such officers of the Company in connection therewith, and have made such investigation or examination as is necessary, in the opinion of the undersigned, to enable the undersigned to express an informed opinion as to whether the covenants and conditions precedent to the action to be taken by the Trustee in authenticating and delivering Additional Securities under the Indenture have been complied with;

4) In the opinion of the undersigned, such covenants and conditions precedent have been complied with; and

5) The Additional Securities are "Debt" under the Support Agreement, dated June 22, 2000 and amended as of July 26, 2000, between American Water Works Company, Inc. and the Company.

IN WITNESS WHEREOF, we have hereunto signed our names as of the date first written above.

By: /s/ Deborah A. Degillio
Name: Deborah A. Degillio
Title: Vice President and Treasurer

By: /s/ Jeffrey M. Taylor
Name: Jeffrey M. Taylor
Title: Secretary

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Section 5: EX-5.1 (EX-5.1)

Exhibit 5.1

Morgan Lewis

Morgan, Lewis & Bockius LLP
101 Park Avenue
New York, NY 10178-0060
Tel. +1.212.309.6000
Fax: +1.212.309.6001
www.morganlewis.com

August 13, 2015

American Water Works Company, Inc.
American Water Capital Corp.
1025 Laurel Oak Road
Voorhees, New Jersey 08043

Ladies and Gentlemen:

We have acted as counsel to American Water Works Company, Inc., a Delaware corporation ("AWW"), and American Water Capital Corp., a Delaware corporation (the "Company"), in connection with the issuance by the Company of $225,000,000 aggregate principal amount of its 3.400% Senior Notes due 2025 and $325,000,000 aggregate principal amount of its 4.300% Senior Notes due 2045 (the "Notes"), issued under the Indenture, dated as of December 4, 2009 (the "Indenture"), between the Company and Wells Fargo Bank, National Association, as trustee (the "Trustee"), which Notes have the benefit of the Support Agreement, dated June 22, 2000, as amended July 26, 2000, between the Company and AWW.

We have participated in the preparation of or reviewed (1) the Registration Statement on Form S-3 (Registration Nos. 333-203949 and 333-203949-01) (the "Registration Statement"), which Registration Statement was filed jointly by the Company and AWW with the Securities and Exchange Commission ("Commission") under the Securities Act of 1933, as amended (the "Securities Act"); (2) the prospectus dated May 7, 2015, forming a part of the Registration Statement, as supplemented by a prospectus supplement dated August 10, 2015 relating to the Notes, both such prospectus and prospectus supplement filed pursuant to Rule 424(b) under the Securities Act; (3) the Indenture; (4) the Support Agreement; (5) the certificate of incorporation of the Company; (6) the amended bylaws of the Company; (7) the restated certificate of incorporation of AWW; (8) the amended and restated bylaws of AWW; and (9) such other corporate records, certificates and other documents (including a receipt executed on behalf of the Company acknowledging receipt of the purchase price for the Notes) and such questions of law as we have considered necessary or appropriate for the purposes of this opinion.

Based on the foregoing, we are of the opinion that the Notes and the Support Agreement, as it relates to the Notes, are valid and binding obligations of the Company and AWW, respectively, except as limited or affected by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance or other laws affecting creditors' rights and remedies generally and general principles of equity.

In rendering the foregoing opinion, we have assumed that the certificates representing the Notes conform to specimens examined by us and that the Notes have been duly authenticated, in accordance with the Indenture, by the Trustee under the Indenture and that the signatures on all documents examined by us are genuine, assumptions which we have not independently verified.

We hereby consent to the filing of this opinion as an exhibit to a Current Report on Form 8-K to be filed by AWW on or about August 13, 2015 which will be incorporated by reference in the Registration Statement. In giving the foregoing consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

This opinion is limited to the laws of the State of New York, the General Corporation Law of the State of Delaware and the federal laws of the United States insofar as they bear on matters covered hereby.

Very truly yours,

/s/ Morgan, Lewis & Bockius LLP

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AWK 8-K 8/6/2014

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 6, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On August 6, 2014, American Water Works Company, Inc. issued a press release announcing its financial results for the second quarter of 2014, ended June 30, 2014. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1 Press Release, dated August 6, 2014, issued by American Water Works Company, Inc.

Signature(s)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 6, 2014

By /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE
AMERICAN WATER

Aug. 6, 2014

Edward Vallejo
Vice President, Investor Relations
856-566-4005
edward.vallejo@amwater.com

Maureen Duffy
Vice President, Communications
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AMERICAN WATER REPORTS STRONG SECOND QUARTER 2014 RESULTS

- **Operating revenues increased 4.8 percent for the quarter to $759.2 million.**
- **Net income rose 7.9 percent for the quarter to $109.3 million, or $0.61 per diluted common share.**
- **Adjusted net income (a non-GAAP financial measure) totaled $112.3 million, or $0.63 per diluted common share, excluding the impact of the Freedom Industries chemical spill in West Virginia, an increase of 8.6 percent from weather normalized second quarter 2013 EPS.**
- **Company affirmed annual earnings guidance to be in the range of $2.35 to $2.45 per share, with performance trending toward the upper end of the range, assuming normal weather patterns for August through the remainder of the year and excluding the impact of the Freedom Industries chemical spill in West Virginia.**

VOORHEES, N.J., Aug. 6, 2014 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today reported strong results for the second quarter of 2014.

“Our mission is to provide clean, safe, affordable and reliable water and water services to our customers. In my first three months as President and CEO, I have been traveling throughout our service areas to meet with our employees and see firsthand the hard work and commitment they have to our customers and communities. This dedication is reflected in our results for the second quarter,” said Susan Story, president and CEO of American Water. “We achieved increases in revenues and earnings per share growth, completed five additional regulated acquisitions through August 4, continued strategic growth in our market-based businesses, and found ways to be more efficient to mitigate impacts to customers’ bills.”

For the three months ended June 30, 2014, the company reported net income of $109.3 million, or $0.61 per diluted common share. Excluding the one-time impact of the Freedom Industries chemical spill in West Virginia, the company’s adjusted income (a non-GAAP financial measure) for the three months ended June 30, 2014, totaled $112.3 million, or $0.63 per diluted common share, compared to weather normalized adjusted net income of $104.2 million, or $0.58 per adjusted diluted common share, in the same quarter last year. For the six months ended June 30, 2014, net income was $177.4 million, or $0.99 per diluted common share, compared to $158.9 million, or $0.89 per diluted common share, for the same period last year. Excluding the one-time impact of the Freedom Industries chemical spill in West Virginia, the company's adjusted net income (a non-GAAP financial measure) for the six months ended June 30, 2013 was $184.4 million, or diluted earnings per share (EPS) of $1.03 compared to weather normalized $161.8 million, or diluted EPS of $0.91 for the comparable period in 2013.

The company's capital investments during the first six months of 2014 totaled approximately $387.9 million. The company anticipates investing up to $1.1 billion in 2014, with the majority allocated to upgrading its water and wastewater systems to ensure reliable service to customers.

Regulated Operations

For the three months ended June 30, 2014, American Water's Regulated Businesses' revenues increased by $30.2 million, or 4.7 percent, as compared to the same quarter in 2013. Operating revenues increased by $64.6 million, or 5.3 percent, for the six months ended June 30, 2014, as compared to the same period in 2013. The increase in revenues was primarily due to rate authorizations and infrastructure and other surcharges, as well as incremental revenues resulting from acquisitions, most of which occurred in 2013.

The Regulated Businesses' operation and maintenance (O&M) expense increased $11.8 million, or 4.3 percent and $20.7 million, or 3.8 percent, for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013. The higher costs are mainly due to increased purchased water costs in the company's California subsidiary, costs associated with the Freedom Industries chemical spill in West Virginia and higher customer uncollectible expense. These higher costs were partially offset by lower employee-related costs.

The regulated entities showed continued improvement in their O&M efficiency ratio (a non-GAAP measure). For the 12 months ended June 30, 2014, the adjusted O&M efficiency ratio was 37.7 percent, compared to 40.7 percent for the previous 12-month period.

"As we make needed investments to ensure the quality and reliability of our water and service, we work hard to balance the cost of these investments through our operational efficiency efforts," said Story. "In addition, we work with the utility commissioners in our states to seek regulatory mechanisms that mitigate the impact on our customers' bills."

In April, the company’s rate authorization in Iowa for an additional $3.8 million in annualized revenues and the final annualized step increase approved in New York of $1.2 million were put into effect. The company’s request for an additional $3.7 million in infrastructure surcharges in Missouri was approved and became effective May 30, 2014. Also, on July 1, 2014, additional annualized revenue of $7.4 million in infrastructure charges became effective in New Jersey. Also in July, a settlement was reached with the Office of Ratepayer Advocates regarding the company’s general rate case in California, which, if approved in accordance with the settlement agreement, would provide $13.6 million in additional annualized revenues for the first year of a three-year step increase. The agreement is pending regulatory approval and is subject to change.

As of Aug. 5, 2014, the company was awaiting final orders for general rate cases in two states, including California, requesting $52 million in total additional revenues. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary. All annualized revenue amounts are based on current usage.

In terms of regulated growth, from April 1 through June 30, 2014, the company completed three acquisitions, adding approximately 700 customers to its regulated footprint. From July 1 through Aug. 4, an additional two acquisitions closed, adding approximately 430 more customers to the company’s regulated footprint. Four additional pending acquisitions are awaiting regulatory approval and/or financial close. The company also continues to provide a reliable supply of water to the communities in shale-enriched areas in Pennsylvania, as well as to multiple energy companies, and currently has 40 points of interconnection in that area.

Market-Based Operations

The company’s Market-Based Businesses’ revenues increased by $4.6 million, or 5.8 percent, and $16.1 million, or 10.9 percent, for the three and six months through June 30 2014, respectively, compared to the same periods in 2013. The increase was mainly due to additional revenues resulting from contract growth in the homeowner services business and incremental capital project activities in the company’s military services group, partially offset by decreases in revenue from discontinued municipal and industrial contracts as compared to the comparable quarter in 2013.

The Market-Based Businesses’ O&M expense increased $6.3 million, or 9.9 percent, and $12.9 million, or 10.5 percent, for the three and six months ended June 30, 2014, respectively. Higher costs were primarily due to an increase in operating supplies and services attributable to construction project activities for military contracts.

American Water’s Market-Based Businesses footprint also continued to grow. The company’s homeowner services business, American Water Resources (AWR), expanded its service offerings into eight new states since the beginning of 2014, and also launched its exclusive partnership with Metro Water Services in Nashville in April. AWR currently has nearly 700,000 customers and more than 1.3 million customer contracts, and operations in 43 states and Washington, D.C.

Quarterly Dividend

On July 30, 2014, American Water's Board of Directors declared a quarterly cash dividend payment of $0.31 per share, payable on Sept. 2, 2014 to all shareholders of record as of Aug. 11, 2014.

On April 29, 2014, in recognition of the company's performance, the board of directors increased its quarterly cash dividend payment from $0.28 per common share to $0.31 per common share, an approximate 11 percent increase, which was paid on June 2, 2014, to all shareholders of record as of May 12, 2014.

2014 Earnings Guidance

American Water estimates its 2014 ongoing earnings to be in the range of $2.35 to $2.45 per share. Management further states that the company's performance is currently trending toward the upper end of the range, assuming normal weather patterns for August and through the remainder of the year. This guidance excludes the impact of the Freedom Industries chemical spill in West Virginia, which was estimated at $0.04 through June 30, 2014. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports.

Non-GAAP Financial Measures

This press release includes a presentation of adjusted net income and adjusted earnings per share (EPS). These items are derived from American Water's consolidated financial information but are not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted net income and adjusted EPS are defined, respectively, as GAAP income and GAAP diluted earnings per common share excluding the one-time impact of the Freedom Industries chemical spill in West Virginia and the estimated impact of weather in the second quarter of 2013. These items constitute "non-GAAP financial measures" under Securities and Exchange Commission (SEC) rules. These non-GAAP financial measures supplement the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water's baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company's performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses, the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill as well as the estimated impact of weather in the second quarter of 2013. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). The item constitutes a "non-GAAP financial measure" under Securities and Exchange Commission (SEC) rules. This non-GAAP financial measure supplements the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill, which involve items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below are tables that reconcile the non-GAAP financial measures to the most directly comparable GAAP financial measures.

Second Quarter 2014 Earnings Conference Call

The second quarter 2014 earnings conference call will take place on Thursday, Aug. 7, 2014, at 9 a.m. Eastern Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company's website at www.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through Aug. 15, 2014, by dialing 1-412-317-0088 for U.S. and international callers. The access code for replay is 10049534. The online archive of the webcast will be available through Sept. 7, 2014, by accessing the Investor Relations page of the company's website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs approximately 6,600 dedicated professionals who provide drinking water, wastewater and other related services to an estimated 14 million people in more than 40 states and parts of Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events and may relate to, among other things, its future financial performance, including earnings, growth and portfolio optimization strategies, its ability to finance current operations and growth initiatives, trends in its industry, regulatory or legal developments or rate adjustments. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action related to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal and intercoastal flooding; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations and the growth of its business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on the company's current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase its cost and funding requirements; migration of customers into or out of its service territories; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; cash impact if the National Labor Relations Board order requiring it to provide back pay to employees in connection with a dispute relating to its national benefits agreements with unions representing Regulated Businesses employees is upheld on appeal; labor actions including work stoppages and strikes; the incurrence of impairment charges; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water’s business, please refer to American Water’s annual, quarterly and current SEC filings. The company undertakes no duty to update any forward-looking statement.

# # #

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Income (Unaudited)
In thousands except per share data

	Three Months Ended June 30,		Six Months Ended 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
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

American Water Works Company, Inc. and Subsidiary Companies

Condensed Consolidated Balance Sheet Information (Unaudited)
In thousands

	June 30, 2014	December 31, 2013
Cash and cash equivalents	$ 32,133	$ 26,964
Other current assets	675,502	542,035
Total property, plant and equipment	12,582,511	12,391,162
Total regulatory and other long-term assets	2,136,301	2,127,981
Total Assets	$15,426,447	$ 15,088,142
Short-term debt	$ 702,438	$ 630,307
Current portion of long-term debt	15,030	14,174
Other current liabilities	517,443	591,052
Long-term debt	5,233,508	5,230,058
Total regulatory and other long-term liabilities	3,030,574	2,852,043
Contributions in aid of construction	1,054,328	1,042,704
Total stockholders’ equity	4,873,126	4,727,804
Total Capitalization and Liabilities	$15,426,447	$ 15,088,142

Adjusted Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	Last Twelve Months Ended June 30, 2014	2013
Total Operation and Maintenance Expenses	$1,349,450	$1,347,982
Less:		
Operation and maintenance expenses - Market-Based Operations	277,187	261,283
Operation and maintenance expenses - Other	(53,896)	(56,558)
Total Regulated Operation and Maintenance Expense	1,126,159	1,143,257
Less:		
Regulated purchased water expense	119,974	110,969
Allocation of non-Operation and maintenance expense	36,027	35,757
Impact of West Virginia Freedom Industries Chemical Spill	9,820	—
Estimated impact of weather	(893)	1,867
Adjusted Regulated Operation and Maintenance Expenses (a)	$ 961,231	$ 994,664
Total Operating Revenues	$2,982,561	$2,873,130
Less:		
Operating revenues - Market-Based Operations	341,573	315,044
Operating revenues - Other	(17,541)	(18,006)
Total Regulated operating revenues	2,658,529	2,576,092
Less:		
Regulated purchased water expense*	119,974	110,969
Plus:		
Impact of West Virginia Freedom Industries Chemical Spill	1,012	—
Estimated impact of weather	9,918	(18,875)
Adjusted Regulated operating revenues (b)	$2,549,485	$2,446,248
Adjusted Regulated Operations and Maintenance Efficiency Ratio (a)/(b)	37.7%	40.7%

* Calculation assumes purchased water revenues approximate purchased water expenses.

Adjusted net income and EPS (A Non-GAAP, unaudited measure)
In thousands except per share data

	Three Months Ended June 30,		Six Months Ended June 30, 2014	
	2014	2013	2014	2013
Net income	$109,299	$101,263	$177,422	$158,906
Add:				
After-tax impact of West Virginia Freedom Industries chemical spill	2,991	0	6,532	0
After-tax impact of 2013 weather	0	2,895	0	2,895
Adjusted net income	$112,290	$104,158	$183,954	$161,801
Diluted earnings per share (a)	$ 0.61	$ 0.57	$ 0.99	$ 0.89
Add:				
After-tax impact of West Virginia Freedom Industries chemical spill	0.02	0.00	0.04	0.00
After-tax impact of 2013 weather	0.00	0.02	0.00	0.02
Adjusted diluted earnings per share	$ 0.62	$ 0.58	$ 1.02	$ 0.91

(a) Amounts may not sum due to rounding

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AWK 8-K 8/5/2015

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 5, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On August 5, 2015, American Water Works Company, Inc. issued a press release announcing its financial results for the second quarter ended June 30, 2015. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information furnished in this Current Report, including Exhibit 99.1, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibit has been furnished herewith:

Exhibit	Description
99.1	Press Release, dated August 5, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: August 5, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE

AMERICAN WATER

Aug. 5, 2015

Gregory Panagos
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Maureen Duffy
Vice President, Communications
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AMERICAN WATER REPORTS SOLID 2015 SECOND QUARTER RESULTS

- **Quarterly diluted earnings per share from continuing operations of $0.68 per share, an increase of 7.9 percent over adjusted earnings per share (a non-GAAP financial measure) and 11.5 percent over GAAP earnings per share in same quarter last year.**

- **Revenue up 3.6 percent to $782.1 million for the quarter.**

- **Expanded customer base through acquisitions and agreements in both regulated and market-based businesses.**
- **Affirmed 2015 earnings guidance from continuing operations in the range of $2.55 to $2.65 per diluted share.**

VOORHEES, N.J., Aug. 5, 2015 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today reported solid second quarter earnings for the three months ended June 30, 2015.

"American Water's employees continued to successfully execute our strategies during the second quarter. We had solid earnings growth, continued to invest in our infrastructure and improve operational efficiency to the benefit of our customers, and expanded our Regulated and Market-Based customers," said Susan Story, president and CEO of American Water. "We remain on track to meet our long-term goal of growing earnings seven to ten percent. Based on our results year-to-date including weather impacts in July, we are affirming our 2015 earnings guidance to be in the range of $2.55 to $2.65 per diluted common share."

Continuing Operations

For the second quarter of 2015, GAAP income from continuing operations was $123.1 million, or $0.68 per diluted common share ("diluted share"), as compared to $0.61 per diluted share in the second quarter of 2014, an 11.5 percent increase. For the first six months of 2015, the company's GAAP income from continuing operations was $203.1 million, or $1.13 per diluted share, as compared to $1.00 per diluted share for the first six months of 2014, a 13.0 percent increase.

Excluding the 2014 costs related to the Freedom Industries chemical spill in West Virginia, adjusted diluted earnings per share (a non-GAAP financial measure) grew 7.9 percent quarter over quarter and 8.7 percent for the first six months. These increases were mainly due to continued revenue growth in both the Regulated and Market-based businesses, and lower operating and maintenance expenses in the Regulated businesses.

In the first six months of 2015, the company made capital investments of approximately $515 million, with nearly $474 million to replace and improve infrastructure for continued reliable service to customers. American Water plans to invest $1.2 to $1.3 billion in 2015, with over $1 billion of this total to improve water and wastewater systems, and approximately $200 million for acquisitions and strategic investments. This amount includes the Keystone Clearwater Solutions acquisition, which closed on July 9, 2015.

Regulated Operations

American Water's Regulated Businesses' revenues increased by $8.7 million, or 1.3 percent, for the quarter, and $16.5 million, or 1.3 percent, for the six months ended June 30, 2015, compared to the same periods in 2014. These increases in revenues were mainly due to rate increases and surcharges in recognition of system improvements to better serve customers.

The Regulated Businesses' operation and maintenance (O&M) expense decreased $13.8 million, or 4.9 percent, and $25.3 million, or 4.5 percent, for the three and six months of 2015, respectively. The decreased costs were mainly attributable to lower operating supplies and services expenses, as well as 2014 costs related to the Freedom Industries chemical spill.

American Water continued its focus on operational efficiencies to maintain the reliability of water services through needed capital investment while at the same time limiting the impact on customer bills. For the 12-month period ended June 30, 2015, the O&M efficiency ratio (a non-GAAP measure) improved to 35.9 percent, compared to 37.7 percent for the 12-month period ended June 30, 2014.

As of July 31, 2015, the company received approximately $36.7 million in additional annualized revenues from general rate cases and infrastructure charges for 2015.

As of July 31, 2015, the company was awaiting final orders and/or proposed settlements for general rate cases in three states, requesting approximately $127.0 million in total additional revenues. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary.

Since April 1, 2015, the company closed on its acquisitions of regulated water and/or wastewater systems in Haddonfield, N.J., Russiaville, Ind., and Arnold and Redfield, Mo., adding approximately 19,000 customers to its footprint. The company also has 17 pending acquisition agreements in several states that will add approximately 14,000 customers to the company's footprint following regulatory approval and/or financial close. This includes the pending acquisition of Environmental Disposal Corporation in N.J., which will add approximately 5,300 regulated customers once completed.

Market-Based Operations

Market-Based revenues increased by $19.0 million, or 23.4 percent, for the quarter, and $30.6 million, or 19.5 percent the first six months of 2015, compared to the same periods in 2014. The increases were mainly due to increased construction activities and the addition of two new contracts in the company's Military Services Group and continued growth in the homeowner services business.

The Market-Based Businesses' O&M expense increased by $15.3 million, or 23.4 percent, and $27.1 million, or 21.3 percent for the second quarter and first six months of 2015, respectively, compared to the same periods in 2014. Higher costs were related to an increase in construction projects for military contracts and costs associated with the addition of two military contracts. Higher claims expenses in the company's homeowner services business also contributed to the increase.

American Water's Market-Based Businesses continued to grow. The company's homeowner services business entered into an exclusive contract with the city of Rialto, Calif. to offer service line protection programs to its eligible homeowners, and was also recently notified by the city of Wilmington, Del. of its intent to award the company an exclusive contract to offer programs to its residential customers, pending city council approval. The company expects both programs to launch by year-end, following all appropriate approvals.

On July 9, 2015, the company closed on its acquisition of Keystone Clearwater Solutions. Keystone will be included in the company's third quarter 2015 10-Q as part of its Market-Based segment. The company established Keystone under a holding company separate from its existing Regulated Businesses and Market-Based American Water Enterprises entity. American Water Enterprises is a Market-Based subsidiary that includes the company's Military, Contract, and Homeowner Services lines of business.

"American Water continues to expand our footprint by offering and providing services that meet customers' needs," said Story. "The expertise of our employees in addressing water and wastewater challenges allows us to bring needed solutions and value to all our new customers, as well as existing ones."

Quarterly Dividend

On July 24, 2015, American Water's board of directors declared a quarterly cash dividend payment of $0.34 per share of common stock, in recognition of the company's performance. The dividend will be payable on Sept. 1, 2015, to all shareholders of record as of Aug. 10, 2015.

On April 28, 2015, American Water's board of directors increased the company's quarterly cash dividend payment from $0.31 to $0.34 per share of common stock. The increased dividend was paid on June 1, 2015, to all shareholders of record as of May 11, 2015.

2015 Earnings Guidance

American Water affirmed its 2015 earnings guidance from continuing operations to be in the range of $2.55 to $2.65 per diluted common share. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports filed with the Securities and Exchange Commission (SEC).

Non-GAAP Financial Measures

This press release includes a presentation of adjusted earnings per share (EPS) from continuing operations. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted EPS from continuing operations is defined as GAAP diluted earnings per common share from continuing operations excluding the one-time impact of the Freedom Industries chemical spill in West Virginia in 2014. This item constitutes a "non-GAAP financial measure" under SEC rules. This non-GAAP financial measure supplements the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water's baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company's performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses, and the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill as well as the estimated impact of weather. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with GAAP. The item constitutes a "non-GAAP financial measure" under SEC rules. This non-GAAP financial measure supplements the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill and weather, which involve items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below are tables that reconcile the non-GAAP financial measure to the most directly comparable GAAP financial measures.

2015 Second Quarter Earnings Conference Call

The 2015 second quarter earnings conference call will take place on Thursday, Aug. 6, 2015, at 9 a.m. Eastern Daylight Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company's website at www.amwater.com. Presentation slides that will be used in conjunction with the earnings conference call are also available online at http://ir.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through Aug. 13, 2015, by dialing 412-317-0088 for U.S. and international callers. The access code for replay is 10068691. The online archive of the webcast will be available through Sept. 8, 2015, by accessing the Investor Relations page of the company's website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest and most geographically diversified publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs 6,800 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, 2015 earnings guidance and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates and other matters; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action including with respect to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes and tornadoes, and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its technology systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies and attacks on its computer systems; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including concession arrangements and agreements for provision of water services in shale regions for exploration and production; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on its current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; the ability to utilize its U.S. and state net operating loss carryforwards; migration of customers into or out of its service territories and the condemnation of its systems by municipalities using the power of eminent domain; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement, except as otherwise required by the federal securities laws.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Operating revenues	$ 782,121	$ 754,778	$ 1,480,199	$ 1,433,781
Operating expenses				
Operation and maintenance	336,624	337,849	660,456	663,029
Depreciation and amortization	108,923	105,685	216,300	211,609
General taxes	60,222	56,802	123,918	117,469
Gain on asset dispositions and purchases	(1,209)	(345)	(2,337)	(555)
Total operating expenses, net	504,560	499,991	998,337	991,552
Operating income	277,561	254,787	481,862	442,229
Other income (expenses)				
Interest, net	(75,421)	(73,668)	(151,094)	(147,228)
Allowance for other funds used during construction	2,835	2,058	5,195	4,259
Allowance for borrowed funds used during construction	1,542	1,271	4,064	2,754
Amortization of debt expense	(1,878)	(1,629)	(3,642)	(3,302)
Other, net	(1,012)	(316)	744	(1,857)
Total other income (expenses)	(73,934)	(72,284)	(144,733)	(145,374)
Income from continuing operations before income taxes	203,627	182,503	337,129	296,855
Provision for income taxes	80,552	72,329	134,011	117,568
Income from continuing operations	123,075	110,174	203,118	179,287
Loss from discontinued operations, net of tax	—	(875)	—	(1,865)
Net income	$ 123,075	$ 109,299	$ 203,118	$ 177,422
Basic earnings per share: (a)				
Income from continuing operations	$ 0.69	$ 0.62	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.01)
Net income	$ 0.69	$ 0.61	$ 1.13	$ 0.99
Diluted earnings per share: (a)				
Income from continuing operations	$ 0.68	$ 0.61	$ 1.13	$ 1.00
Loss from discontinued operations, net of tax	$ 0.00	$ (0.00)	$ 0.00	$ (0.01)
Net income	$ 0.68	$ 0.61	$ 1.13	$ 0.99
Average common shares outstanding during the period				
Basic	179,564	178,863	179,511	178,702
Diluted	180,371	179,693	180,348	179,512
Dividends declared per common share	$ 0.34	$ 0.31	$ 0.34	$ 0.31

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

American Water Works Company, Inc. and Subsidiary Companies
Condensed Consolidated Balance Sheet Information (Unaudited)
In thousands

	June 30, 2015	December 31, 2014
Cash and cash equivalents	$ 144,752	$ 23,080
Other current assets	745,333	638,289
Total property, plant and equipment	13,357,981	13,029,296
Total regulatory and other long-term assets	2,484,266	2,440,291
Total Assets	$ 16,732,332	$ 16,130,956
Short-term debt	$ 820,982	$ 449,959
Current portion of long-term debt	61,962	61,132
Other current liabilities	629,244	729,907
Long-term debt	5,447,530	5,448,245
Total regulatory and other long-term liabilities	3,620,614	3,451,250
Contributions in aid of construction	1,098,610	1,074,872
Total stockholders' equity	5,053,390	4,915,591
Total Capitalization and Liabilities	$ 16,732,332	$ 16,130,956

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Earnings Per Share from Continuing Operations (A Non-GAAP, unaudited measure)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Income from continuing operations per diluted common share	$ 0.68	$ 0.61	$ 1.13	$ 1.00
Add:				
After-tax impact of West Virginia Freedom Industries Chemical Spill	-	0.02	-	0.04
Adjusted income from continuing operations per diluted common share	$ 0.68	$ 0.63	$ 1.13	$ 1.04

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	For the Twelve Months Ended June 30, 2015	2014
Total Operation and Maintenance Expense	$ 1,347,291	$ 1,326,931
Less:		
Operation and maintenance expense—Market-Based Operations	316,456	254,668
Operation and maintenance expense—Other	(55,333)	(53,896)
Total Regulated Operation and Maintenance Expense	1,086,168	1,126,159
Less:		
Regulated purchased water expense	118,708	119,974
Allocation of non-operation and maintenance expense	39,165	36,027
Impact of West Virginia Freedom Industries chemical spill	618	9,820
Estimated impact of weather (mid-point of range)	(1,762)	(893)
Adjusted Regulated Operation and Maintenance Expense (a)	$ 929,439	$ 961,231
Total Operating Revenues	$ 3,057,746	$ 2,962,213
Less:		
Operating revenues—Market-Based Operations	385,250	321,226
Operating revenues—Other	(18,309)	(17,541)
Total Regulated Operating Revenues	2,690,805	2,658,528
Less:		
Regulated purchased water expense*	118,708	119,974
Plus:		
Impact of West Virginia Freedom Industries chemical spill	—	1,012
Estimated impact of weather (mid-point of range)	16,785	9,918
Adjusted Regulated Operating Revenues (b)	$ 2,588,882	$ 2,549,484
Adjusted Regulated Operation and Maintenance Efficiency Ratio (a)/(b)	35.9%	37.7%

* Calculation assumes purchased water revenues approximate purchased water expenses.

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AWK 8-K 7/9/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 9, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

On July 9, 2015, American Water Works Company, Inc. (“American Water”) issued a press release announcing that it has agreed to acquire Keystone Clearwater Solutions, LLC from Rex Energy Corporation. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information being furnished pursuant to this Item 7.01, including Exhibit 99.1 hereto, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description of Exhibit
99.1	Press Release, dated July 9, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 9, 2015	By: /s/ Michael A. Sgro
	Michael A. Sgro
	Senior Vice President, General Counsel and Secretary

EXHIBIT INDEX

The following exhibit has been furnished herewith:

Exhibit No.	Description of Exhibit
99.1	Press Release, dated July 9, 2015, issued by American Water Works Company, Inc.

(Back To Top)

Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE

AMERICAN WATER

July 9, 2015

Greg Panagos
Vice President, Investor Relations
856-566-4005
gregory.panagos@amwater.com

Maureen Duffy
Vice President, Communications
856-309-4546
maureen.duffy@amwater.com

American Water Acquires

Keystone Clearwater Solutions

VOORHEES, N.J., July 9, 2015 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today announced that it has completed its acquisition of Keystone Clearwater Solutions (Keystone).

Keystone, headquartered in Hershey, Pa., is a water service provider offering a range of water related services to the oil and gas industry primarily in the Appalachian region of Pennsylvania, Ohio and West Virginia.

The acquisition delivers on one of American Water's growth strategies to develop complementary businesses. Coupled with its existing activity in shale, the Keystone acquisition will enhance American Water's ability to provide additional water services solutions to shale development companies.

For more information about the acquisition, visit American Water's Investor Relations website at http://ir.amwater.com/.

About Keystone Clearwater Solutions

Keystone Clearwater Solutions provides customized water sourcing, transfer and hydraulic fracturing support including intake development, turnkey pipeline construction, water storage, management support and transfer services for Shale Gas operators.

Founded in 2009, Keystone Clearwater is a water management company, serving the needs of customers in the markets where its employees live and work. Keystone's origins were established through its management team's long-standing history and sound reputation in the environmental engineering and water management field, including water systems engineering, permitting, construction and O&M.

About American Water

Founded in 1886, American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs 6,400 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found at www.amwater.com.

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AWK 8-K 6/30/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 30, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On June 30, 2015, American Water Works Company, Inc. (“American Water”) and American Water Capital Corp. (“AWCC”), a wholly owned finance subsidiary of American Water, amended and restated that certain Credit Agreement, dated as of October 29, 2012, as amended, by and among American Water, AWCC, each of the lenders party thereto (each, a “Lender”), Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd. and PNC Bank, National Association, as co-documentation agents (the “Credit Agreement”), with respect to AWCC’s unsecured revolving credit facility. American Water has executed the Credit Agreement solely to acknowledge and agree that (a) obligations owing by AWCC under the Credit Agreement will constitute “debt” under a support agreement between American Water and AWCC, and (b) the Credit Agreement will contain representations, warranties and covenants that relate to American Water and that a breach of any of those representations or warranties, or a failure by AWCC to comply with such covenants, could result in an event of default under the Credit Agreement.

The amended and restated Credit Agreement amends the expiration of the term of this credit facility from October 2018 to June 2020. AWCC may request to extend the term of the credit facility for up to two one-year periods. An extension request must satisfy certain conditions and receive approval of the Lenders, all as set forth in the Credit Agreement. The financial covenants with respect to the credit facility remain unchanged.

The foregoing description of the amendment to the Credit Agreement does not purport to be complete and is subject to, and is qualified in its entirety by, the full text of the Credit Agreement attached hereto as Exhibit 10.1, which is incorporated herein by reference.

In the ordinary course of business, certain of the Lenders and their respective affiliates have from time to time engaged, and likely will in the future engage, in transactions with, and from time to time have performed services for, and likely will in the future perform services for, AWCC, American Water and their affiliates, for which they received, or will continue to receive, customary fees or compensation. In addition, affiliates of certain of the Lenders act as paying agent or dealer under AWCC’s commercial paper program.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description of Exhibit
10.1	Amended and Restated Credit Agreement, dated as of June 30, 2015, by and among American Water, AWCC, each of the Lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd. and PNC Bank, National Association, as co-documentation agents.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 7, 2015	By: /s/ Linda G. Sullivan Linda G. Sullivan Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

The following exhibits have been filed herewith:

Exhibit No.	Description of Exhibit
10.1	Amended and Restated Credit Agreement, dated as of June 30, 2015, by and among American Water, AWCC, each of the Lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd. and PNC Bank, National Association, as co-documentation agents.

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

Published CUSIP Number: 03040YAE1
Revolving Credit CUSIP Number: 03040YAF8

U.S. $1,250,000,000

AMENDED AND RESTATED CREDIT AGREEMENT

dated as of June 30, 2015

by and among

AMERICAN WATER CAPITAL CORP.
as Borrower

THE LENDERS

and

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent

and

JPMORGAN CHASE BANK, N.A.
as Syndication Agent

and

MIZUHO BANK, LTD.
PNC BANK, NATIONAL ASSOCIATION
as Co-Documentation Agents

WELLS FARGO SECURITIES, LLC
J.P. MORGAN SECURITIES LLC
MIZUHO BANK, LTD.
PNC CAPITAL MARKETS LLC
as Joint Lead Arrangers and Joint Bookrunners

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EXHIBITS

Exhibit A	Form of Notice of Borrowing
Exhibit B	Form of Request for Issuance
Exhibit C	Form of Assignment and Acceptance
Exhibit D	Form of Note
Exhibit E	Form of Financial Services Agreement
Exhibit F-1	Form of U.S. Tax Compliance Certificate (Lender; Not Partnership)
Exhibit F-2	Form of U.S. Tax Compliance Certificate (Participant; Not Partnership)
Exhibit F-3	Form of U.S. Tax Compliance Certificate (Participant; Partnership)
Exhibit F-4	Form of U.S. Tax Compliance Certificate (Lender; Partnership)

AMENDED AND RESTATED CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of June 30, 2015 (this "***Agreement***"), is by and among **AMERICAN WATER CAPITAL CORP.**, **a Delaware corporation (the "*Borrower*"**); the Lenders from time to time party hereto (collectively, the "***Lenders***"); **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association, as Administrative Agent for the Lenders (in such capacity, together with its successors and assigns, the "***Administrative Agent***"); **JPMORGAN CHASE BANK, N.A.**, **as Syndication Agent; and MIZUHO BANK, LTD**. and **PNC BANK, NATIONAL ASSOCIATION**, as Co-Documentation Agents.

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of October 29, 2012 (as amended and in effect immediately prior to the date hereof, the "Existing Credit Agreement");

WHEREAS, the Borrower has requested the Lenders and the Administrative Agent amend and restate the Existing Credit Agreement to modify the Existing Credit Agreement in certain respects;

WHEREAS, the Borrower acknowledges and agrees that the Obligations represent, among other things, the amendment, restatement, renewal, extension, consolidation and modification of the Obligations (as defined in the Existing Credit Agreement) arising in connection with the Existing Credit Agreement and other Loan Documents (as defined in the Existing Credit Agreement) executed in connection therewith; and

WHEREAS, the Borrower intends that (a) the provisions of the Existing Credit Agreement and the other Loan Documents (as defined in the Existing Credit Agreement) executed in connection therewith, to the extent restated, renewed, extended, consolidated, amended and modified hereby, be hereby superseded and replaced by the provisions hereof and of the other Loan Documents; and (b) by entering into and performing its Obligations hereunder, this transaction shall not constitute a novation.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree that the Existing Credit Agreement is hereby amended and restated, as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Certain Defined Terms. The terms defined in this Section 1.01 shall, for all purposes of this Agreement, have the meanings set forth herein:

"Act" means the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), as amended.

"Administrative Agent" has the meaning set forth in the preamble.

"***Advance***" means a Base Rate Advance, a Eurodollar Rate Advance or a Swing Line Advance, and "***Advances***" means Base Rate Advances, Eurodollar Rate Advances or Swing Line Advances, or any or all of them, as the context shall require.

"***Affected Lenders***" has the meaning set forth in Section 2.18(b).

"***Affiliate***" means, with respect to any Person, any other Person directly or indirectly controlling (including but not limited to all directors and officers of such Person), controlled by, or under direct or indirect common control with such Person. A Person shall be deemed to control another entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities, by contract, or otherwise.

"***Agreement***" has the meaning set forth in the preamble.

"***Anti-Corruption Laws***" means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption, including, without limitation, the United States Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder.

"***Applicable Percentage***" means, with respect to the Facility Fee or any Eurodollar Rate Advance, Base Rate Advance or Swing Line Advance, at all times during which any Applicable Rating Level set forth below is in effect, the rate per annum for the Facility Fee or such Advance set forth below next to such Applicable Rating Level; provided that the Applicable Percentage for the Facility Fee and each Advance from the Closing Date until the first calculation date following receipt by the Administrative Agent of the financial statements and compliance certificate for the Fiscal Quarter ending June 30, 2015 in accordance with Section 5.1(b)(iii) shall be at Rating Level 2:

Applicable Rating Level	**Applicable Percentage for Facility Fee**	**Applicable Percentage for Eurodollar Rate Advances**	**Applicable Percentage for Base Rate Advances**
1	0.075%	0.800%	0.000%
2	0.100%	0.900%	0.000%
3	0.125%	1.000%	0.000%
4	0.175%	1.075%	0.075%
5	0.225%	1.275%	0.275%

The Applicable Percentage shall be determined in accordance with the foregoing table based on the Applicable Rating Level as determined from the Borrower's then-applicable

Moody's Rating and S&P Rating. Any change in the Applicable Percentages resulting from a change in the Applicable Rating Level shall become effective upon the date of announcement of any change in the Moody's Rating or the S&P Rating of the Borrower that results in such change in the Applicable Rating Level.

"Applicable Rating Level" at any time shall be determined in accordance with the Borrower's then-applicable S&P Rating and the Borrower's then-applicable Moody's Rating as follows:

S&P Rating/Moody's Rating	Applicable Rating Level
S&P Rating A+ or higher or Moody's Rating A1 or higher	1
S&P Rating A or Moody's Rating A2	2
S&P Rating A- or Moody's Rating A3	3
S&P Rating BBB+ or Moody's Rating Baa1	4
S&P Rating BBB or below or Moody's Rating Baa2 or below	5

The Applicable Rating Level for any day shall be determined based upon the higher of the S&P Rating and the Moody's Rating of the Borrower in effect on such day. If the S&P Rating and the Moody's Rating of the Borrower are not the same (i.e., a "split rating"), the higher of such ratings shall control, unless the S&P Rating is below BBB- or the Moody's Rating is below Baa3, in which case the lower of the two ratings shall control.

"***Approved Fund***" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"***Assignee***" means the assignee of all or a portion of a Lender's rights and obligations under this Agreement pursuant to the terms of Section 7.05(b).

"***Assignment and Acceptance***" means an Assignment and Acceptance executed in accordance with Section 7.05(b) in the form attached hereto as Exhibit C.

"***Attributable Debt***" means, on any date of determination, (a) in respect of any Capitalized Lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease, the capitalized amount or principal amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a Capitalized Lease.

“***Base Rate***” means, at any time, the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) except during any period of time during which a notice delivered to the Borrower under Section 2.18 shall remain in effect, the daily LIBOR Market Index Rate for an Interest Period of one month plus 1.00%; each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the Prime Rate, the Federal Funds Rate or the LIBOR Market Index Rate.

“***Base Rate Advance***” means a loan that bears interest based upon the Base Rate as provided in Section 2.08(a)(i).

“***Board***” means the Board of Governors of the Federal Reserve System of the United States.

“***Borrower***” has the meaning set forth in the preamble.

“***Borrower Materials***” has the meaning set forth in Section 5.01.

“***Borrowing***” means a borrowing hereunder consisting of Base Rate Advances or Eurodollar Rate Advances made to the Borrower.

“***Business Day***” means a day of the year on which (i) banks are not required or authorized to close in New York City, and (ii) with respect to any borrowing, payment or rate selection of Eurodollar Rate Advances, a day on which banks are not required or authorized to close in New York City, and on which dealings in Dollar deposits are carried on in the London interbank market and on which commercial banks are open for domestic and international business (including dealings in Dollar deposits) in London, England.

“***Capitalized Lease***” means any lease that is required to be capitalized on a balance sheet of the lessee in accordance with GAAP, consistently applied. Notwithstanding the foregoing, any obligation of a Person under a lease (whether existing now or entered into in the future) that is not (or would not be) a Capitalized Lease under GAAP as in effect on the Closing Date, shall not be treated as a Capitalized Lease solely as a result of the adoption after the Closing Date of changes in GAAP described in the Proposed Accounting Standards Update to Leases (Topic 842) issued by the Financial Accounting Standards Board on May 16, 2013.

“***Cash Collateral Account***” has the meaning set forth in Section 6.02.

“***Cash Collateralize***” means, to pledge and deposit in the Cash Collateral Account, or to pledge and deposit with or deliver to the Administrative Agent, for the benefit of one or more of the LC Issuing Banks, the Swing Line Banks or the Lenders, as collateral for Letters of Credit, obligations of Lenders to fund participations in respect of Letters of Credit or for the obligations of Lenders to purchase their respective Pro Rata Shares in respect of Swing Line Advances, cash or deposit account balances or, if the Administrative Agent and each applicable LC Issuing Bank or Swing Line Bank, as applicable, shall agree in their reasonable discretion, other credit support, in each case pursuant to documentation in form and substance satisfactory to the Administrative Agent and each applicable LC Issuing Bank or Swing Line Bank, as applicable. “***Cash Collateral***” shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

“***CERCLA***” means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C., § 9601, *et seq*., as amended from time to time, and any regulations promulgated thereunder.

“***Change in Law***” means the occurrence, after the Closing Date (or, if later, on or after the date the Administrative Agent or any Lender becomes the Administrative Agent or a Lender, respectively), of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“***Closing Date***” means the date of this Agreement.

“***Code***” means the Internal Revenue Code of 1986, as amended from time to time, or any successor federal tax code. Any reference to any provision of the Code shall also be deemed to be a reference to any successor provision or provisions thereof.

“***Commitment***” means (i) with respect to each Lender, the commitment of such Lender to make its Pro Rata Percentage of Advances in an aggregate amount up to the amount set forth opposite the name of each Lender on Schedule I, subject to adjustment on account of assignment pursuant to Section 7.05(b), reduction of the Commitment pursuant to Section 2.10 or 2.24(d), or increase in the Commitment pursuant to Section 2.05, and (ii) with respect to the Lenders collectively, the aggregate amount of all such Commitments.

“***Commitment Letter***” means, that Commitment Letter, dated May 26, 2015 by and among the Borrower, Wells Fargo, JPMorgan Chase Bank, N.A., Mizuho Bank, Ltd., PNC Bank, National Association and the Joint Lead Arrangers.

“***Common Stock***” means with respect to any Person, the voting securities or equivalent equity interests of such Person having general voting rights, including the right to vote in the election of members of the board of directors (or persons performing similar functions) of such Person.

“***Connection Income Taxes***” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

"***Consolidated Tangible Total Assets***" means, as at any applicable time of determination, Consolidated Total Assets less, without duplication, all intangible assets such as goodwill, trademarks, trade names, patents and unamortized debt discount and expense carried as an asset, in each case as set forth in the most recently available consolidated balance sheet of the Parent and its Subsidiaries.

"***Consolidated Total Assets***" means, as at any applicable time of determination, the total assets of Parent and its Subsidiaries as set forth in the most recently available consolidated financial statements of the Parent and its Subsidiaries.

"***Consolidated Total Capitalization***" means at any date of determination with respect to the Parent and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, the sum of (without duplication) (i) Consolidated Total Debt of the Parent and its Subsidiaries, plus (ii) the sum of the capital stock (excluding treasury stock and capital stock subscribed for and unissued) and surplus (including earning surplus, capital surplus, translation adjustment, the balance of the current profit and loss account not transferred to surplus and accumulated other comprehensive income) accounts of the Parent and its Subsidiaries, in each case as shown on the most recent consolidated balance sheet of the Parent and its Subsidiaries delivered pursuant to Section 5.01(a).

"***Consolidated Total Debt***" means at any date of determination with respect to the Parent and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, the sum of (without duplication) all then outstanding Debt of the Parent and its Subsidiaries as shown on the most recent consolidated balance sheet of the Parent delivered pursuant to Section 5.01(a).

"***Continuing Directors***" means the directors of the Parent on the Closing Date and each subsequent director of the Parent, if, in each case, such subsequent director's nomination for election to the board of directors (or equivalent governing body) of the Parent is recommended by at least 51% of the then "Continuing Directors".

"***Controlled Group***" means, with respect to any Person, all trades or businesses (whether or not incorporated) that, together with such Person, are treated as a single employer under Section 414 of the Code.

"***Convert***", "***Conversion***", "***Converted***", "***Continue***" and "***Continued***" each refers to a conversion of Advances of one Type into Advances of another Type or the selection of a new, or the renewal or continuation of the same, Interest Period for Eurodollar Rate Advances, as the case may be, pursuant to Section 2.19. "Converting", "Continuing" and "Continuation" have meanings correlative thereto.

"***Current Termination Date***" has the meaning set forth in Section 2.06(b).

"***Debt***" means, for any Person, (without duplication), all (i) indebtedness for borrowed money, (ii) obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) obligations to pay the deferred purchase price of property or service (other than trade payables not overdue by more than 90 days incurred in the ordinary course of business), (iv) the Attributable Debt of such Person with respect to such Person's obligations in respect of Capitalized Leases (regardless of whether accounted for as indebtedness under GAAP),

(v) indebtedness of the type referred to in clauses (i) through (iv) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien or encumbrance on, or security interest in, property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness, and (vi) all obligations of such Person for indebtedness or obligations of others of the kinds referred to in clauses (i) through (v) above under direct or indirect Guarantees, excluding, in all cases, (a) advances for construction as set forth on the consolidated balance sheet of the Parent and its Subsidiaries, (b) reimbursement obligations (contingent or otherwise) in respect of outstanding letters of credit and (c) the Attributable Debt of such Person with respect to such Person's obligations in respect of Synthetic Leases (regardless of whether accounted for as indebtedness under GAAP).

"***Debtor Relief Laws***" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect.

"***Default***" means any condition or event that constitutes an Event of Default or that with the giving of notice or lapse of time or both would, unless cured or waived in writing, become an Event of Default.

"***Defaulting Lender***" means, subject to Section 2.24(b), any Lender that (a) has failed to (i) fund all or any portion of its Advances within two (2) Business Days of the date such Advances were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to the Administrative Agent, any LC Issuing Bank, any Swing Line Bank or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swing Line Advances) within two (2) Business Days of the date when due, (b) has notified the Borrower, the Administrative Agent or any LC Issuing Bank or Swing Line Bank in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund an Advance hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within three (3) Business Days after written request by the Administrative Agent or the Borrower, to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Borrower), (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity or (iii) indicated its consent to, approval of or acquiescence in any such proceeding or appointment; provided that a

Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender or (e) has defaulted in fulfilling its obligations under one or more other agreements in which it commits to extend credit (unless the subject of a good faith dispute). Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses (a) through (e) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.24(b)) upon delivery of written notice of such determination to the Borrower, each LC Issuing Bank, each Swing Line Bank and each Lender.

"***Designated Lender***" has the meaning set forth in Section 2.05(a).

"***Dollars***" or "***$***" means dollars in lawful currency of the United States of America.

"***Eligible Assignee***" means (i) a Lender; (ii) an Affiliate of a Lender; (iii) an Approved Fund; and (iv) any bank or financial institution approved by (w) the Administrative Agent, (x) except for any Swing Line Bank which is a Lender being replaced pursuant to Section 2.23(b), each Swing Line Bank, (y) except for any LC Issuing Bank which (1) is a Lender being replaced pursuant to Section 2.23(b) and (2) has no Letters of Credit issued by it on such date of replacement, each LC Issuing Bank and (z) unless an Event of Default described in Section 6.01(a), 6.01(g) or 6.01(h) has occurred and is continuing at the time any assignment is effected in accordance with Section 7.05, the Borrower (each such approval not to be unreasonably withheld or delayed and such approval to be deemed given by the Borrower if no objection is received by the assigning Lender and the Administrative Agent from the Borrower within ten (10) Business Days after notice of such proposed assignment has been received by the Borrower); provided that (A) the Borrower or any of the Borrower's Subsidiaries or Affiliates, (B) any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (B) and (C) any natural Person (or a holding company, investment vehicle or trust for, or owned and operated for the primary benefit of, a natural Person) shall not qualify as an Eligible Assignee.

"***Environmental Liabilities***" means any liabilities, whether accrued, contingent or otherwise, arising from and in any way associated with the compliance or non-compliance with any Environmental Requirement.

"***Environmental Proceedings***" means any judicial or administrative proceedings arising from or in any way associated with any Environmental Requirement.

"***Environmental Requirement***" means, with respect to any Person, any legal requirement relating to health, safety or the environment and applicable to such Person, or the Properties of such Person, including but not limited to any such requirement under CERCLA, RCRA or similar state legislation and all federal, state and local laws, ordinances, regulations, orders, writs, decrees and common law.

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law. Any reference to any provision of ERISA shall also be deemed to be a reference to any successor provision or provisions thereof.

"***Eurocurrency Liabilities***" has the meaning assigned to that term in Regulation D of the Board, as in effect from time to time.

"***Eurodollar Rate***" means a rate per annum determined by the Administrative Agent pursuant to the following formula:

$$\text{Eurodollar Rate} = \frac{\text{LIBOR}}{\text{1.00-Eurodollar Rate Reserve Percentage}}$$

"***Eurodollar Rate Advance***" means a loan that bears interest based upon the Eurodollar Rate as provided in Section 2.08(a)(ii).

"***Eurodollar Rate Reserve Percentage***" means, for any day during an Interest Period, the reserve percentage (expressed as a decimal) which is in effect for such day as prescribed by the Board for determining the maximum reserve requirement (including any basic, supplemental or emergency reserves) in respect of Eurocurrency Liabilities or any similar category of liabilities for a member bank of the Federal Reserve System in New York City.

"***Event of Default***" has the meaning set forth in Section 6.01.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended from time to time.

"***Excluded Taxes***" means any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in an Advance or Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Advance or Commitment (other than pursuant to an assignment request by the Borrower under Section 2.23(b)) or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 2.17, amounts with respect to such Taxes were payable either to such Lender's assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its lending office, (c) Taxes attributable to such Recipient's failure to comply with Section 2.17(g) and (d) any U.S. federal withholding Taxes imposed under FATCA.

"***Existing Credit Agreement***" has the meaning set forth in the recitals.

"***Existing Letters of Credit***" means the letters of credit set forth on Schedule 2.04(j).

“***Extension of Credit***” means (i) the making of an Advance or (ii) the issuance of a Letter of Credit or the amendment of any Letter of Credit having the effect of extending the stated termination date thereof or increasing the maximum amount to be drawn thereunder.

“***Extension Request***” has the meaning specified in Section 2.06(b).

“***Facility Fee***” has the meaning set forth in Section 2.09(a).

“***FATCA***” means Sections 1471 through 1474 of the Code, as of the Closing Date (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code.

“***Federal Funds Rate***” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day (or, if such day is not a Business Day, for the immediately preceding Business Day), as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that if such rate is not so published for any day which is a Business Day, the average of the quotation for such day on such transactions received by the Administrative Agent from three (3) Federal Funds brokers of recognized standing selected by the Administrative Agent.

“***Fee Letter***” means each of those certain fee letters, dated May 26, 2015, among the Borrower and each of the Joint Lead Arrangers and the other parties thereto.

“***Financial Officer***” of any Person means the chief financial officer, principal accounting officer, treasurer, assistant treasurer, controller or assistant controller of such Person.

“***Financial Services Agreement***” means any Financial Services Agreement between the Borrower and one or more of the Parent and the Operating Utilities, each in substantially the form of Exhibit E; provided that for purposes of Section 3.01(c)(i), the term “Financial Services Agreement” means the Financial Services Agreement dated as of June 15, 2000, between the Borrower and the Parent.

“***Fiscal Quarter***” means any fiscal quarter of the Borrower or the Parent, as applicable.

“***Fiscal Year***” means any fiscal year of the Borrower or the Parent, as applicable.

“***Foreign Lender***” means a Lender that is not a U.S. Person.

“***Fronting Exposure***” means, at any time there is a Defaulting Lender, (a) with respect to any LC Issuing Bank, such Defaulting Lender’s Pro Rata Percentage of the LC Outstandings with respect to Letters of Credit issued by such LC Issuing Bank other than LC Outstandings as to which such Defaulting Lender’s participation obligation has been reallocated to Non-Defaulting Lenders or Cash Collateralized in accordance with the terms hereof, and (b) with respect to any Swing Line Bank, such Defaulting Lender’s Pro Rata Percentage of outstanding Swing Line Advances made by such Swing Line Bank other than Swing Line Advances as to which such Defaulting Lender’s participation obligation has been reallocated to Non-Defaulting Lenders or Cash Collateralized in accordance with the terms hereof.

"***Fund***" means any Person (other than a natural Person) that is engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course of its business.

"***GAAP***" means generally accepted accounting principles in the United States of America in effect from time to time.

"***Governmental Authority***" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"***Guarantee***" means, with respect to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to secure, purchase or pay (or advance or supply funds) for the purchase or payment of such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep well, to purchase assets, goods, securities or services, to provide collateral security or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Guarantee shall be deemed to be the lower of (x) an amount equal to the stated or determinable amount of the obligation in respect of which such Guarantee is made and (y) the maximum amount for which such Person may be liable pursuant to the terms of the instrument embodying such Guarantee, unless such obligation and the maximum amount for which such Person may be liable are not stated or determinable, in which case the amount of such Guarantee shall be such Person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith. The term "Guarantee" used as a verb has a corresponding meaning.

"***Hazardous Materials***" means (i) solid or hazardous waste, as defined in the RCRA, or in any applicable state or local law or regulation, (ii) "hazardous substance", "pollutant" or "contaminant" as defined in CERCLA, or in any applicable state or local law or regulation, (iii) gasoline, or any other petroleum product or by-product, including crude oil or any fraction thereof, (iv) "toxic substances", as defined in the Toxic Substances Control Act of 1976, or in any applicable state or local law or regulation and (v) "insecticides", "fungicides" or "rodenticides", as defined in the Federal Insecticide, Fungicide, and Rodenticide Act of 1975 or in any applicable state or local law or regulation.

“***Indemnified Taxes***” means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

“***Indemnitee***” has the meaning set forth in Section 7.03(b).

“***Interest Period***” means, for each Eurodollar Rate Advance, the period commencing on the date of such Advance or the date of the Conversion of any Advance into such an Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. In the case of a Eurodollar Rate Advance, the duration of each such Interest Period shall be 7 days or one, two, three or six months (or twelve months if available to all Lenders), in each case as the Borrower may select by notice to the Administrative Agent pursuant to Section 2.02(a) or 2.19; provided, that:

(1) the Borrower may not select any Interest Period that ends after the stated Termination Date;

(2) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided, in the case of any Interest Period for a Eurodollar Rate Advance, that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(3) except with respect to any Interest Period that is 7 days, any Interest Period for a Eurodollar Rate Advance that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month at the end of such Interest Period;

(4) the Interest Period shall commence on the date of advance of or Conversion to any Eurodollar Rate Advance and, in the case of immediately successive Interest Periods, each successive Interest Period shall commence on the date on which the immediately preceding Interest Period expires; and

(5) there shall be no more than twelve (12) Interest Periods in effect at any time.

“***Investment Company Act***” has the meaning set forth in Section 4.08.

“***IRS***” means the United States Internal Revenue Service.

“***Joint Lead Arranger***” means each of Wells Fargo Securities, LLC, J.P. Morgan Securities LLC, Mizuho Bank, Ltd. and PNC Capital Markets LLC and their respective successors, in their capacity as joint lead arrangers and joint bookrunners.

"***LC Commitment***" means in the case of (a) an LC Issuing Bank described in clause (a) of the definition of such term, the amount set forth on Schedule 2.04 opposite such LC Issuing Bank's name and (b) any other LC Issuing Bank, the amount set forth in the agreement executed by the Borrower, such relevant LC Issuing Bank and acknowledged (to evidence its consent as to the identity of such LC Issuing Bank) by the Administrative Agent, in each case, subject to adjustment on account of a reduction in the LC Commitments pursuant to Section 2.10. The aggregate LC Commitments of all the LC Issuing Banks on the Closing Date shall be $150,000,000. For the avoidance of doubt, the LC Commitment of each LC Issuing Bank shall be independent of and in addition to such LC Issuing Bank's Commitment as a Lender.

"***LC Disbursement***" has the meaning set forth in Section 2.04(e).

"***LC Fee***" has the meaning set forth in Section 2.09(b).

"***LC Issuing Bank***" means, as to any Letter of Credit, (a) each Lender listed on Schedule 2.04 and (b) any other Lender appointed by the Borrower and approved by the Administrative Agent (such approval not to be unreasonably withheld or delayed) that agrees pursuant to Section 2.04 to act as an LC Issuing Bank hereunder.

"***LC Notice Date***" has the meaning set forth in Section 2.04(e).

"***LC Outstandings***" means, on any date of determination, (i) the undrawn stated amounts of all Letters of Credit that are outstanding on such date, plus (ii) the aggregate principal amount of all unpaid Reimbursement Obligations on such date with respect to payments made by any LC Issuing Bank under any Letter of Credit.

"***LC Payment Notice***" has the meaning set forth in Section 2.04(e).

"***LC Reimbursement Due Date***" has the meaning set forth in Section 2.04(d).

"***Lenders***" means each of the Lenders identified on the signature pages hereto, and their successors and permitted assigns.

"***Lending Office***" means, with respect to any Lender, the office of such Lender maintaining such Lender's Extensions of Credit.

"***Letter of Credit***" means any letter of credit issued by an LC Issuing Bank pursuant to Section 2.04.

"***LIBOR***" means, for any interest rate calculation during any Interest Period with respect to a Eurodollar Rate Advance, the rate of interest per annum determined on the basis of the rate for deposits in Dollars for a period equal to the applicable Interest Period which appears on Reuters Screen LIBOR01 Page (or any applicable successor page) at approximately 11:00 a.m. (London time) two (2) Business Days prior to the first day of the applicable Interest Period. If, for any reason, such rate does not appear on Reuters Screen LIBOR01 Page (or any applicable successor page), then "LIBOR" shall be determined by the Administrative Agent to be the arithmetic average of the rate per annum at which deposits in Dollars would be offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00

a.m. (London time) two (2) Business Days prior to the first day of the applicable Interest Period for a period equal to such Interest Period. Each calculation by the Administrative Agent of LIBOR in accordance with the provisions of this Agreement shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding the foregoing, in no event shall LIBOR be less than 0.00%.

"***LIBOR Market Index Rate***" means for any day, the rate for one (1) month Dollar deposits as reported on Reuters Screen LIBOR01 Page, or its successor page, as of 11:00 a.m. (London time), on such day, or if such day is not a Business Day, then the immediately preceding Business Day (or if not so reported, then as determined by the Administrative Agent from another recognized source or interbank quotation). If, for any reason, such rate does not appear on Reuters Screen LIBOR01 Page (or any applicable successor page) then the "LIBOR Market Index Rate" shall be determined by the Administrative Agent to be the arithmetic average of the rate per annum at which deposits in Dollars would be offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 a.m. (London time) on such date of determination for a period equal to one month commencing on such date of determination. Each calculation by the Administrative Agent of the LIBOR Market Index Rate in accordance with the provisions of this Agreement shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding the foregoing, in no event shall the LIBOR Market Index Rate be less than 0.00%.

"***LIBOR Market Index Rate Advance***" means a Swing Line Advance that bears interest based upon the LIBOR Market Index Rate as provided in Section 2.08(a)(iii).

"***Lien***" means, with respect to any asset, any mortgage, leasehold mortgage, lien, pledge, charge, security interest, hypothecation or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, a Person shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, Capitalized Lease or other title retention agreement relating to such asset.

"***Loan Documents***" means this Agreement, the Support Agreement, each Fee Letter, the Notes and any other document evidencing, relating to or securing the Advances, and any other document or instrument delivered from time to time in connection with this Agreement, the Notes or the Advances.

"***Margin Regulations***" means Regulations T, U and X of the Board, as in effect from time to time, together with all official rulings and interpretations issued thereunder.

"***Margin Stock***" has the meaning assigned to that term in the Margin Regulations.

"***Material Adverse Change***" means any (i) material adverse change with respect to the Properties, business, condition (financial or otherwise) or operations of the Borrower or of the Parent and its Subsidiaries, taken as a whole, or (ii) material adverse effect on the legality, validity or enforceability of the Loan Documents or on the ability of the Borrower or the Parent to perform its obligations thereunder.

"***Moody's***" means Moody's Investors Service, Inc.

“***Moody’s Rating***” means, with respect to any Person, on any date of determination, the debt rating most recently announced by Moody’s with respect to the senior unsecured, non-credit enhanced debt issued by such Person.

“***Multiemployer Plan***” has the meaning set forth in Section 4001(a)(3) of ERISA.

“***Non-Consenting Lender***” has the meaning set forth in Section 7.04(b).

“***Non-Defaulting Lender***” means, at any time, each Lender that is not a Defaulting Lender at such time.

“***Non-Extending Lender***” has the meaning set forth in Section 2.06(b).

“***Note***” or “***Notes***” means each of the promissory notes of the Borrower, evidencing the obligation of the Borrower to repay the Advances to the Lenders substantially in the form of Exhibit D.

“***Notice of Borrowing***” has the meaning set forth in Section 2.02(a).

“***Notice of Swing Line Borrowing***” has the meaning set forth in Section 2.03(a).

“***Obligations***” means, in each case, whether now in existence or hereafter arising: (a) the principal of and interest on (including interest accruing after the filing of any bankruptcy or similar petition) the Advances, (b) the LC Outstandings and (c) all other fees (including attorneys’ fees), charges, indebtedness, loans, liabilities, financial accommodations, obligations, covenants and duties owing by the Borrower to the Lenders, the LC Issuing Banks or the Administrative Agent, in each case under any Loan Document, with respect to any Advance or Letter of Credit of every kind, nature and description, direct or indirect, absolute or contingent, due or to become due, contractual or tortious, liquidated or unliquidated, and whether or not evidenced by any note and including interest and fees that accrue after the commencement by or against the Borrower or the Parent of any proceeding under any federal bankruptcy laws (as now or hereafter in effect) or under any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or adjustment of debts, naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“***OFAC***” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“***Operating Lease***” means, as to any Person as determined in accordance with GAAP, any lease of Property (whether real, personal or mixed) by such Person as lessee which is not a Capitalized Lease.

“***Operating Utilities***” means, as of any date of determination, those Subsidiaries of the Parent that are operating water utilities and that are party to a Financial Services Agreement with the Borrower and the Parent.

“***Other Connection Taxes***” means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Advance or Loan Document).

"***Other Taxes***" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to Section 2.23).

"***Outstanding Credits***" means, on any date of determination, an amount equal to the sum of (i) the aggregate principal amount of all Advances outstanding on such date plus (ii) the LC Outstandings on such date. The "Outstanding Credits" of any Lender means, on any date of determination, an amount equal to such Lender's Pro Rata Share of the aggregate Outstanding Credits on such date.

"***Parent***" means American Water Works Company, Inc., a Delaware corporation.

"***Parent Change of Control***" means the occurrence of either of the following: (i) any entity, person (within the meaning of Section 14(d) of the Exchange Act) or group (within the meaning of Section 13(d) of the Exchange Act), that theretofore was beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of less than 45% of the Parent's then outstanding Common Stock acquires direct or indirect beneficial ownership of shares of Common Stock of the Parent, in a transaction or series of transactions, that results in such entity, person or group directly or indirectly owning beneficially 45% or more of the Parent's then outstanding Common Stock; or (ii) a majority of the board of directors (or equivalent governing body) of the Parent shall not be Continuing Directors.

"***Participant***" has the meaning set forth in Section 7.05(e).

"***Participant Register***" has the meaning set forth in Section 7.05(e).

"***Participation Interest***" means a purchase by a Lender of a participation in Advances as provided in Section 2.22.

"***Payment Date***" means each March 31, June 30, September 30 and December 31 and the Termination Date.

"***PBGC***" means the Pension Benefit Guaranty Corporation pursuant to Subtitle A or Title IV of ERISA or any entity succeeding to any or all of its functions under ERISA.

"***Permitted Liens***" means:

(i) Liens existing, or created pursuant to the terms of agreements existing, on the Closing Date;

(ii) Liens consisting of (A) pledges or deposits in the ordinary course of business to secure obligations under workmen's compensation laws or similar legislation, (B) deposits in the ordinary course of business to secure or in lieu of surety, appeal or customs bonds to which the Borrower, the Parent or a Significant Subsidiary of the Parent is a party, (C) Liens created by or resulting from any litigation or legal proceeding which is currently being contested in good faith by appropriate proceedings diligently conducted, (D) pledges or deposits in the ordinary course of business to secure performance in connection with bids, tenders or contracts (other than contracts for the payment of money) or (E) materialmen's, mechanics', carriers', workmen's, repairmen's or other like Liens incurred in the ordinary course of business for sums not yet due or currently being contested in good faith by appropriate proceedings diligently conducted;

(iii) Liens created to secure tax-exempt Debt or any other tax-exempt indebtedness, in connection with the financing or refinancing of the purchase, lease or construction of Properties or other assets;

(iv) Liens on Properties or assets (A) of any Person existing at the time such Person is merged or consolidated with or into, or such asset is acquired by, the Borrower, the Parent or a Subsidiary of the Parent and (B) of the Borrower, the Parent or a Subsidiary of the Parent existing at the time such tangible property or tangible assets are purchased or otherwise acquired by the Borrower, the Parent or such Subsidiary; provided that, with respect to each of the foregoing clauses (A) and (B), (1) such Liens are not incurred in connection with, or in anticipation of, such event, purchase or other acquisition, and (2) such Liens do not attach to any other Property or asset of the Borrower, the Parent or any such Subsidiary; and provided further that, with respect to the foregoing clause (B), (1) such Liens are applicable only to specific Property or assets, and (2) such Liens are not "blanket" or all asset Liens;

(v) Liens created to secure sales of accounts receivable and other receivables;

(vi) licenses of intellectual property granted by the Borrower, the Parent or a Subsidiary of the Parent in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business;

(vii) Liens of landlords arising under real property leases to the extent such Liens arise in the ordinary course of business and do not secure any past due obligation for the payment of money;

(viii) any interest or title of a lessor or sublessor under any lease permitted by this Agreement;

(ix) Liens, securing Debt which has neither been assumed by the Borrower, the Parent or a Subsidiary of the Parent nor upon which it customarily pays interest charges, existing upon real property, or rights in or relating thereto, which real property or rights were acquired for right-of-way purposes;

(x) zoning laws and ordinances;

(xi) Capitalized Leases;

(xii) easements, rights-of-way, restrictions, conditions and other similar encumbrances, minor defects or irregularities of title, and alleys, streets and highways, which in the aggregate do not materially impair the usefulness of the mortgaged property in the present business of the Borrower, the Parent or any Subsidiary of the Parent;

(xiii) leases of the Properties and other assets of the Borrower, the Parent or a Subsidiary of the Parent, in each case entered into in the ordinary course of business and that do not, individually or in the aggregate, (A) interfere in any material respect with the ordinary course of business or (B) materially impair the value of the property subject thereto;

(xiv) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Borrower, the Parent or a Subsidiary of the Parent in the ordinary course of business in accordance with the past practices of the Borrower, the Parent or such Subsidiary of the Parent;

(xv) bankers' Liens, rights of setoff and other similar Liens existing solely with respect to cash and cash equivalents on deposit in one or more accounts maintained by the Borrower, the Parent or any Subsidiary of the Parent, in each case granted in the ordinary course of business in favor of the financial institution or institutions with which such accounts are maintained, securing amounts owing to such financial institution(s) with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; provided that, unless such Liens are non-consensual and arise by operation of law, in no case shall any such Liens secure (either directly or indirectly) the repayment of any Debt;

(xvi) Liens for taxes, assessments or governmental charges or levies not yet delinquent and which may subsequently be paid without interest or penalties and Liens for taxes, assessments or governmental charges or levies which are being contested in good faith by appropriate proceedings for which reserves have been established to the extent required by GAAP;

(xvii) purchase money Liens upon or in any fixed or capital assets, or other property created, acquired or constructed for use in connection therewith or related thereto, to secure the purchase price or the cost of construction or improvement of such fixed or capital assets or such other property or to secure Debt incurred solely for the purpose of financing the acquisition, construction or improvement of such fixed or capital assets or such other property (including Liens securing any Capitalized Leases) or Liens on any such assets or property existing at the time of acquisition thereof; provided, that (i) such Lien attaches to such asset or property prior to, concurrently or within 180 days (or within one year thereafter pursuant to a binding commitment for financing entered into with a lender or investor within such 180-day period) after the acquisition, improvement or completion of the construction thereof; (ii) such Lien does not extend to any other asset theretofore owned by the Borrower, the Parent or any Subsidiary of the Parent except (w) unimproved real property on which the property so constructed or the improvement is located, (x) other property (or improvement thereon) which is an improvement to or is acquired or constructed for use in connection therewith or related thereto, (y) any right and interest under any agreement or other document relating to the property being so constructed or improved or such other property and (z) the stock of any Subsidiary of the Parent created or maintained for the primary purpose of owning the property so constructed or improved; and (iii) the Debt secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets or such other property;

(xviii) Liens not permitted by the foregoing subsections (i) through (xvii) securing Debt or other obligations in the aggregate principal amount not to exceed 15% of Consolidated Tangible Total Assets;

(xix) Liens created for the sole purpose of refinancing, extending, renewing or replacing in whole or in part Debt or other obligations secured by any Lien, mortgage or security interest referred to in the foregoing subsections (i) through (xviii); provided that the principal amount of Debt or obligations secured thereby shall not exceed the principal amount of Debt or obligations so secured at the time of such refinancing, extension, renewal or replacement and the Lien securing such refinancing, extension, renewal or replacement, as the case may be, shall be limited to all or a part of the Property or assets that secured the Debt or other obligations so extended, renewed or replaced (and any improvements on such Property or assets); and

(xx) (i) Liens created pursuant to the Loan Documents (other than the Support Agreement) and (ii) Liens granted in favor of the Swing Line Banks and/or the LC Issuing Banks to Cash Collateralize any Defaulting Lender's participation in Letters of Credit or Swing Line Advances.

"***Person***" means an individual, a corporation, a partnership (including a joint venture), an unincorporated association, a limited liability company, a trust or any other entity or organization, including, but not limited to, a government or political subdivision or an agency or instrumentality thereof.

"***Plan***" means at any time an employee pension benefit plan (other than a Multiemployer Plan) that is subject to the provisions of Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is maintained by a member of the Controlled Group for employees of a member of the Controlled Group.

"***Platform***" has the meaning set forth in Section 5.01.

"***Prime Rate***" means, at any time, the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate. Each change in the Prime Rate shall be effective as of the opening of business on the day specified in the public announcement of such change. The parties hereto acknowledge that the rate announced publicly by the Administrative Agent as its prime rate is an index or base rate and shall not necessarily be its lowest or best rate charged to its customers or other banks.

“***Pro Rata Percentage***” or “***Pro Rata Share***” means for each Lender, a fraction (expressed as a decimal) the numerator of which is the Commitment of such Lender at such time and the denominator of which is the aggregate Commitment of the Lenders at such time. The initial Pro Rata Percentages are set out on Schedule I.

“***Properties***” means, with respect to, any Person, all real property owned, leased or otherwise used or occupied by such Person wherever located.

“***Proposed Change***” has the meaning set forth in Section 7.04(b).

“***Public Lender***” has the meaning set forth in Section 5.01.

“***RCRA***” means the Resource Conservation and Recovery Act, 42 U.S.C. §6901, et. seq., as amended from time to time, and any regulations promulgated thereunder.

“***Recipient***” means (a) the Administrative Agent, (b) any Lender, (c) any Swing Line Bank and (d) any LC Issuing Bank, as applicable.

“***Register***” has the meaning set forth in Section 7.05(c).

“***Reimbursement Obligation***” means the obligation of the Borrower to reimburse an LC Issuing Bank pursuant to Section 2.04(d) for amounts drawn under Letters of Credit issued by such LC Issuing Bank.

“***Related Parties***” means, with respect to any Person, such Person’s Affiliates and the directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“***Request for Issuance***” means a request made pursuant to Section 2.04 in the form of Exhibit B.

“***Required Lenders***” means, at any time, Lenders holding in the aggregate more than 50% of the aggregate principal amount of the Advances (exclusive of Swing Line Advances) outstanding, or, if no Advances are outstanding, more than 50% of the aggregate principal amount of all Commitments (exclusive of the Swing Line Commitments and the LC Commitments); provided that the Advances and Commitments of any Defaulting Lender shall be disregarded in determining Required Lenders at any time.

“***Resignation Effective Date***” has the meaning set forth in Section 8.08(a).

“***Responsible Officer***” means the chief executive officer, chief operating officer, president or any other Financial Officer of the Parent or the Borrower, and any other officer of the Borrower with responsibility for the administration of the obligations of the Borrower under this Agreement.

“***S&P***” means Standard & Poor’s Financial Services LLC.

“***S&P Rating***” means, with respect to any Person, on any date of determination, the debt rating most recently announced by S&P with respect to the senior unsecured, non-credit enhanced debt issued by such Person.

“***Sale and Leaseback Transaction***” means, with respect to the Borrower, the Parent or any Subsidiary of the Parent, any arrangement (including any series of related arrangements), whereby it shall sell or transfer any Property (real or personal) to any other Person (other than the Borrower, the Parent or any Subsidiary of the Parent), and thereafter rent or lease such Property or portion thereof that it intends to use for substantially the same purpose or purposes as the Property sold or transferred.

“***Sanctioned Country***” means at any time, a country, region or territory which is itself the subject or target of any Sanctions (including, without limitation, as of the Closing Date, Cuba, Crimea, Iran, North Korea, Sudan and Syria).

“***Sanctioned Person***” means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by OFAC, the U.S. Department of State, the United Nations Security Council, the European Union, Her Majesty’s Treasury, or other relevant sanctions authority, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person owned or controlled by any such Person or Persons described in clauses (a) and (b).

“***Sanctions***” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government (including those administered by OFAC), the European Union, Her Majesty’s Treasury, or other relevant sanctions authority.

“***SEC***” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“***Significant Subsidiary***” means the Borrower and with respect to any other Person, a Subsidiary of such Person that is a “significant subsidiary” (within the meaning of Regulation S-X of the SEC). Each Significant Subsidiary of the Parent is set forth on Schedule II (as such Schedule may be updated pursuant to and in accordance with Section 5.01(c)(v)).

“***Subsidiary***” means, with respect to any Person, any corporation or unincorporated entity of which more than 50% of the outstanding capital stock (or comparable interest) having ordinary voting power (irrespective of whether at the time capital stock (or comparable interest) of any other class or classes of such corporation or entity shall or might have voting power upon the occurrence of any contingency) is at any time directly or indirectly owned by said Person (whether directly or through one or more of the other Subsidiaries). In the case of an unincorporated entity, a Person shall be deemed to have more than 50% of interests having ordinary voting power only if such Person’s vote in respect of such interests comprises more than 50% of the total voting power of all such interests in the unincorporated entity.

“***Support Agreement***” means that certain Support Agreement, dated June 22, 2000, between the Parent and the Borrower, as amended by that certain First Amendment to Support Agreement dated as of July 26, 2000.

"***Swing Line Advance***" means a loan that bears interest as provided in Section 2.08(a)(iii).

"***Swing Line Bank***" means as to any Swing Line Advance, (a) each Lender listed on Schedule 2.03 and (b) any other Lender appointed by the Borrower and approved by the Administrative Agent (such approval not to be unreasonably withheld or delayed) that agrees pursuant to Section 2.03 to act as a Swing Line Bank hereunder.

"***Swing Line Borrowing***" means a borrowing hereunder consisting of Swing Line Advances made to the Borrower.

"***Swing Line Commitment***" means the Commitment of each Swing Line Bank to make Swing Line Advances in the case of (a) a Swing Line Bank described in clause (a) of the definition of such term, in the amount set forth on Schedule 2.03 opposite such Swing Line Bank's name, and (b) any other Swing Line Bank, in the amount set forth in the agreement executed by the Borrower, such relevant Swing Line Bank and acknowledged (to evidence its consent as to the identity of such Swing Line Bank) by the Administrative Agent, in each case, subject to adjustment on account of a reduction in the Swing Line Commitments pursuant to Section 2.10. The aggregate Swing Line Commitments of all the Swing Line Banks on the Closing Date shall be $100,000,000. For the avoidance of doubt, the Swing Line Commitment of each Swing Line Bank shall be independent of and in addition to such Swing Line Bank's Commitment as a Lender.

"***Synthetic Lease***" means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an Operating Lease in accordance with GAAP.

"***Taxes***" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"***Termination Date***" means the earliest to occur of (a) with respect to any Lender, June 30, 2020, unless, with respect to such Lender, such date is otherwise extended pursuant to Section 2.06, (b) the date of termination of the entire Commitment by the Borrower pursuant to Section 2.10, or (c) the date of termination of the Commitment pursuant to Section 6.01.

"***Type***" with respect to an Advance (other than a Swing Line Advance), means any of the following, each of which shall be deemed to be a different "***Type***" of Advance: a Base Rate Advance and each Eurodollar Rate Advance having the same Interest Period.

"***U.S. Person***" means any Person that is a "United States person" as defined in Section 7701(a)(30) of the Code.

"***U.S. Tax Compliance Certificate***" has the meaning assigned to such term in Section 2.17(g).

“***Wells Fargo***” means Wells Fargo Bank, National Association, a national banking association, and its successors.

“***Withdrawal Liability***” means a liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as described in Part I of Subtitle E of Title IV of ERISA.

“***Withholding Agent***” means the Borrower and the Administrative Agent.

Section 1.02 Accounting Terms and Determinations. Unless otherwise specified herein, all terms of an accounting character used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision (including any definition) hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision occasioned by the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board or the American Institute of Certified Public Accounts (or successors thereto or agencies with similar functions), and such change affects the calculation of any component of any financial covenant, standard or term found in this Agreement (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith, and the Borrower and the Lenders agree to enter into negotiations in order to amend such provisions (with the agreement of the Required Lenders or, if required by Section 7.04, all of the Lenders) so as to equitably reflect such changes with the desired result that the criteria for evaluating any of the Parent and its Subsidiaries’ financial condition shall be the same after such changes as if such changes had not been made.

Section 1.03 Use of Defined Terms. All terms defined in this Agreement shall have the same meanings when used in any of the other Loan Documents (other than the Support Agreement), unless otherwise defined therein or unless the context shall otherwise require.

Section 1.04 Other Definitions and Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document: (a) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined, (b) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms, (c) the words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”, (d) the word “will” shall be construed to have the same meaning and effect as the word “shall”, (e) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (f) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (g) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (h) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights, and (i) in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including”.

Section 1.05 References to Agreement and Laws. Unless otherwise expressly provided herein, (a) references to formation documents, governing documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any applicable law shall include all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such applicable law.

Section 1.06 Letter of Credit Amounts. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to mean the maximum face amount of such Letter of Credit after giving effect to all increases thereof contemplated by such Letter of Credit (at the time specified therefor in such applicable Letter of Credit and as such amount may be reduced by (a) any permanent reduction of such Letter of Credit or (b) any amount which is drawn, reimbursed and no longer available under such Letter of Credit).

Section 1.07 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

ARTICLE II
THE EXTENSIONS OF CREDIT

Section 2.01 Commitment to Extend Credit.

(a) Each Lender severally agrees, on the terms and conditions set forth herein, to make its Pro Rata Share of Advances (other than Swing Line Advances) to the Borrower from time to time before the Termination Date; provided that, immediately after each such Advance is made, (i) with respect to each Lender individually, the Outstanding Credits of such Lender shall not exceed such Lender’s Commitment, and (ii) with respect to the Lenders collectively, the aggregate Outstanding Credits shall not exceed the Lenders’ aggregate Commitment.

(b) Each Swing Line Bank severally agrees, on the terms and conditions set forth herein, to make Swing Line Advances to the Borrower from time to time before the Termination Date; provided that, immediately after each such Swing Line Advance is made: (i) the outstanding aggregate principal amount of the Swing Line Advances made by such Swing Line Bank shall not exceed such Swing Line Bank’s Swing Line Commitment, (ii) the outstanding aggregate principal amount of the Swing Line Advances shall not exceed the Swing Line Commitments, (iii) the outstanding aggregate principal amount of the Swing Line Advances made by such Swing Line Bank, together with the Outstanding Credits of the applicable Lender acting as a Swing Line Bank shall not exceed such Lender’s Commitment, (iv) with respect to each Lender individually, the Outstanding Credits of such Lender shall not exceed such Lender’s Commitment, and (v) with respect to the Lenders collectively, the aggregate Outstanding Credits shall not exceed the Lenders’ aggregate Commitment.

(c) Within the foregoing limits, the Borrower may borrow under this Section, repay or, to the extent permitted by Section 2.12, prepay Advances and reborrow under this Section at any time before the Termination Date.

Section 2.02 Method of Borrowing.

(a) Each Borrowing shall be made on a Business Day, upon notice from the Borrower to the Administrative Agent, given (i) in the case of a Borrowing that is a Base Rate Advance, not later than 11:00 A.M. on the date of the proposed Borrowing and (ii) in the case of a Borrowing that is a Eurodollar Rate Advance, not later than 11:00 A.M. on the third Business Day prior to the date of the proposed Borrowing. Each such notice of a Borrowing (a "***Notice of Borrowing***") by the Borrower shall be in substantially the form of Exhibit A, specifying therein the requested (A) date of such Borrowing, (B) Type of Advance to be made in connection with such Borrowing, (C) aggregate amount of such Borrowing and (D) in the case of a Borrowing comprising Eurodollar Rate Advances, initial Interest Period for each such Advance. The Administrative Agent shall give notice to each Lender promptly upon receipt of each Notice of Borrowing pursuant to this Section 2.02(a), the contents thereof and each such Lender's Pro Rata Share of any Borrowing to be made pursuant thereto. Each Lender shall, before 1:00 P.M. on the date of such Borrowing, make available to the Administrative Agent for the account of the Borrower in same day funds, the proceeds of such Borrowing. Such Borrowing will then be made available to the Borrower by the Administrative Agent by crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent (or at such other location as may be agreed by the Borrower and the Administrative Agent).

(b) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to comprise Eurodollar Rate Advances, the Borrower shall indemnify the applicable Lender against any loss, cost or expense incurred by such Lender as a result of any failure of the Borrower to fulfill on or before the date specified in such Notice of Borrowing for such Advances, the applicable conditions set forth in Article III, including any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or redeployment of deposits or other funds acquired by such Lender as part of such Borrowing when such Advance is not made on such date.

(c) Each Borrowing (whether for a Base Rate Advance or a Eurodollar Rate Advance) shall be in an aggregate principal amount of $5,000,000 or any multiple of $1,000,000 in excess thereof (except that any such Borrowing may be in the aggregate amount of the unutilized Commitment on such date).

Section 2.03 Method of Swing Line Borrowing.

(a) Each Swing Line Borrowing shall be made on a Business Day, upon notice from the Borrower to the Administrative Agent and a Swing Line Bank, given not later than 1:00 P.M.

on the date of the proposed Swing Line Borrowing. Each such notice of a Swing Line Borrowing (a "***Notice of Swing Line Borrowing***") by the Borrower shall be in substantially the form of Exhibit A, specifying therein (i) the requested date of such Swing Line Borrowing, (ii) the requested aggregate amount of such Swing Line Borrowing and (iii) whether the interest rate for such Swing Line Borrowing is to based on the Base Rate or the LIBOR Market Index Rate. The applicable Swing Line Bank shall, before 3:00 P.M. on the date of such Swing Line Borrowing, make available to the Administrative Agent for the account of the Borrower in same day funds, the proceeds of such Swing Line Borrowing. Such Swing Line Borrowing will then be made available to the Borrower by the Administrative Agent by crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by such Swing Line Bank and in like funds as received by the Administrative Agent. For purposes of determining the amount of Outstanding Credits of any Lender and the amount of unutilized Commitments, each Swing Line Borrowing made by a Swing Line Bank will be deemed to comprise outstanding Advances of the Lenders made in accordance with their Pro Rata Percentages. In addition to the Swing Line Banks listed on Schedule 2.03, the Borrower may from time to time appoint one or more other Lenders (with the consent of such Lender (which consent may be withheld in the sole discretion of such Lender) and the Administrative Agent (such consent not to be unreasonably withheld or delayed)) to act as a Swing Line Bank hereunder. Any such appointment and the terms thereof (including the Swing Line Commitment of such Swing Line Bank) shall be evidenced by a separate written agreement executed by the Borrower and such Swing Line Bank and acknowledged (to evidence its consent as to the identity of such Swing Line Bank) by the Administrative Agent. The Administrative Agent shall give prompt notice of any such appointment to the Lenders. Upon such appointment, if and for so long as such Lender shall have any obligation to make Swing Line Advances hereunder or any Swing Line Advance shall remain outstanding, such Lender shall be deemed to be, and shall have all the rights and obligations of, a "Swing Line Bank" under this Agreement.

(b) Each Swing Line Borrowing shall be in the aggregate principal amount of $1,000,000 or any multiple of $500,000 in excess thereof, or such lesser amount as shall be equal to the aggregate amount of the unutilized Commitment on such date.

(c) Notwithstanding anything in this Section 2.03 above to the contrary:

(i) the aggregate amount of the Swing Line Advances outstanding at any time shall not exceed the Swing Line Commitments;

(ii) the aggregate amount of the Swing Line Advances of a Swing Line Bank outstanding at any time shall not exceed the Swing Line Commitment of such Swing Line Bank;

(iii) no more than one Swing Line Advance may be made on the same Business Day; and

(iv) each Swing Line Advance shall be paid in full by the Borrower on or before the fourteenth (14th) Business Day after the date the Swing Line Advance is made for such Swing Line Advance; provided, that such payment shall not be made from the proceeds of any other Swing Line Advances.

(d) On each date a Swing Line Advance is made, each Lender shall be deemed to have purchased a risk participation in such Swing Line Advance from the applicable Swing Line Bank in an amount equal to such Lender's Pro Rata Percentage of such Swing Line Advance. Upon request by a Swing Line Bank with an outstanding Swing Line Advance, and notwithstanding whether a Default or Event of Default shall have occurred and be continuing, each other Lender shall purchase from such Swing Line Bank, and such Swing Line Bank shall sell and assign to each such other Lender, such other Lender's Pro Rata Share of such outstanding Swing Line Advance as of the date of such demand, by making available to the Administrative Agent for the account of such Swing Line Bank, by deposit to the Administrative Agent's account, in same day funds, an amount equal to the sum of (i) the portion of the outstanding principal amount of such Swing Line Advance to be purchased by such Lender, plus (ii) interest accrued and unpaid to and as of such date on such portion of the outstanding principal amount of such Swing Line Advance. Each Lender agrees to purchase its Pro Rata Share of an outstanding Swing Line Advance upon notice given not later than one (1) Business Day prior to the Business Day of proposed purchase. Upon any such assignment by a Swing Line Bank to any other Lender of a portion of its Swing Line Advance, such Swing Line Bank represents and warrants to such other Lender that such Swing Line Bank is the legal and beneficial owner of such interest being assigned by it, but makes no other representation or warranty and assumes no responsibility with respect to such Swing Line Advance or the applicable Loan Documents. If and to the extent that any Lender shall not have so made the amount of such Swing Line Advance available to the Administrative Agent, such Lender agrees to pay to the Administrative Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by the applicable Swing Line Bank until the date such amount is paid to the Administrative Agent, at the Federal Funds Rate; provided, that if payment is not made within three (3) Business Days of demand, interest thereon shall accrue at the Base Rate plus the Applicable Percentage for Swing Line Advances for each day thereafter until paid. If such Lender shall pay to the Administrative Agent such amount for the account of the applicable Swing Line Bank, such amount so paid in respect of principal shall constitute a Swing Line Advance by such Lender for purposes of this Agreement, and the outstanding principal amount of the Swing Line Advance made by such Swing Line Bank shall be reduced by such amount.

(e) Any Swing Line Bank may and, if such Swing Line Bank is a Lender being replaced pursuant to Section 2.23(b), such Swing Line Bank shall, resign at any time by giving written notice thereof to the Administrative Agent, the Lenders and the Borrower, with any such resignation to become effective (i) if such Swing Line Bank is the Administrative Agent and the Administrative Agent has given notice of its resignation or has been removed in accordance with Section 8.08, on the Resignation Effective Date or Removal Effective Date, as applicable, (ii) if such Swing Line Bank is party to an Assignment and Acceptance whereby it intends to assign all of its Advances and Commitment to an Eligible Assignee pursuant to Section 2.23(b) or 7.05(b), on the effective date of such assignment or (iii) otherwise, on the later of (x) 30 days after delivery of such notice or (y) such date as agreed by such Swing Line Bank; provided that if such resigning Swing Line Bank is the only remaining Swing Line Bank at the time of its resignation and there is no Administrative Agent, the Borrower shall have the right to appoint a successor

Swing Line Bank, which shall be a Lender or an Eligible Assignee acceptable to the Required Lenders. If no successor Swing Line Bank shall have been so appointed by the Borrower, and shall have accepted such appointment, within 30 days after the retiring Swing Line Bank's giving of notice of resignation, then the retiring Swing Line Bank may, on behalf of the Borrower and the Lenders, appoint a successor Swing Line Bank, which shall be a Lender or an Eligible Assignee acceptable to the Borrower. Upon the acceptance of any appointment as a Swing Line Bank hereunder by a successor Swing Line Bank, such successor Swing Line Bank shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Swing Line Bank.

Section 2.04 Letters of Credit.

(a) In addition to the LC Issuing Banks listed on Schedule 2.04, the Borrower may from time to time appoint one or more other Lenders (with the consent of any such Lender (which consent may be withheld in the sole discretion of such Lender) and the Administrative Agent (such consent not to be unreasonably withheld or delayed)) to act as an LC Issuing Bank hereunder. Any such appointment and the terms thereof shall be evidenced in a separate written agreement executed by the Borrower and the relevant LC Issuing Bank and acknowledged (to evidence its consent as to the identity of such LC Issuing Bank) by the Administrative Agent. The Administrative Agent shall give prompt notice of any such appointment to the other Lenders. Upon such appointment, if and for so long as such Lender shall have any obligation to issue any Letters of Credit hereunder or any Letter of Credit issued by such Lender shall remain outstanding, such Lender shall be deemed to be, and shall have all the rights and obligations of, an "LC Issuing Bank" under this Agreement.

(b) Subject to the terms and conditions hereof, each Letter of Credit shall be issued (or the stated maturity thereof extended or terms thereof modified or amended) on not less than one (1) Business Day's prior notice thereof by delivery of (x) a Request for Issuance to the Administrative Agent (which shall promptly distribute copies thereof to the Lenders) and the relevant LC Issuing Bank, and (y) if requested by such LC Issuing Bank, a letter of credit application or other standard form required by the relevant LC Issuing Bank to such LC Issuing Bank. Each Letter of Credit shall be issued in a form acceptable to the relevant LC Issuing Bank. Each Request for Issuance shall specify (i) the identity of the relevant LC Issuing Bank, (ii) the date (which shall be a Business Day) of issuance of such Letter of Credit (or the date of effectiveness of such extension, modification or amendment) and the stated expiry date thereof (which shall not be later than the earlier of (A) one year after the date of issuance of such Letter of Credit and (B) unless cash collateralized in an amount equal to 102% of the LC Outstandings for such Letter of Credit prior to five (5) Business Days prior to the stated Termination Date for the applicable LC Issuing Bank, the fifth Business Day preceding such Termination Date); provided that a Letter of Credit may, upon the request of the Borrower, include a provision whereby such Letter of Credit shall be renewed automatically for additional consecutive periods of one year or less (but not beyond the date specified in clause (B) above) unless the relevant LC Issuing Bank notifies the Borrower and the beneficiary thereof at least 30 days prior to the then-applicable expiration date that such Letter of Credit will not be renewed, (iii) the proposed stated amount of such Letter of Credit, (iv) the name and address of the beneficiary of such Letter of Credit and (v) a statement of drawing conditions applicable to such Letter of Credit, and if such Request for Issuance relates to an amendment or modification of a Letter of Credit, it shall be accompanied by the consent of the beneficiary of the Letter of Credit thereto. Each Request for Issuance shall be delivered by the Borrower no later than 11:00 A.M. on the Business Day immediately prior to the proposed date of issuance (or effectiveness) specified therein. Not later than 2:00 P.M. on the proposed date of issuance (or effectiveness) specified in such Request for Issuance, and upon fulfillment of the applicable conditions precedent and the other requirements set forth herein, the relevant LC Issuing Bank shall issue (or extend, amend or modify) such Letter of Credit and provide notice and a copy thereof to the Administrative Agent, which shall promptly furnish copies thereof to the Lenders; provided that the relevant LC Issuing Bank shall not issue or amend any Letter of Credit if such LC Issuing Bank has received notice from the Administrative Agent that the applicable conditions precedent have not been satisfied.

(c) No Letter of Credit shall be requested or issued hereunder if, after the issuance thereof, (i) the Outstanding Credits would exceed the aggregate Commitments or (ii) the LC Outstandings would exceed $150,000,000. No LC Issuing Bank shall have any obligation to issue any Letter of Credit if, after giving effect to such issuance, the LC Outstandings for all Letters of Credit issued by such LC Issuing Bank would exceed the LC Commitment of such LC Issuing Bank.

(d) The Borrower hereby agrees to pay (through the proceeds of a Borrowing or otherwise) to the Administrative Agent for the account of each LC Issuing Bank and, if any Lender shall have purchased a participation in the Reimbursement Obligations of the Borrower pursuant to paragraph (e) below, such participating Lender, no later than (i) if the Borrower shall have received notice of such LC Issuing Bank’s payment pursuant to any Letter of Credit issued by it not later than 11:00 A.M. on the date of such payment, on such date, or (ii) if such notice has not been received by the Borrower prior to such time on such date, on the Business Day immediately following the day that the Borrower receives such notice (such date referred to in clause (i) or such Business Day referred to in clause (ii), the “***LC Reimbursement Due Date***”), a sum equal to the amount so paid by such LC Issuing Bank plus interest on such amount from the date so paid by such LC Issuing Bank until repayment to such LC Issuing Bank in full at a fluctuating interest rate per annum equal to the interest rate applicable to Base Rate Advances plus, if any amount paid by such LC Issuing Bank under a Letter of Credit is not reimbursed by the Borrower on the LC Reimbursement Due Date, 2%, unless refinanced with an Advance.

(e) If any LC Issuing Bank shall not have been reimbursed in full for any payment made by such LC Issuing Bank under a Letter of Credit issued by such LC Issuing Bank on the date payment is due from the Borrower pursuant to Section 2.04, such LC Issuing Bank shall give the Administrative Agent prompt notice thereof (an “***LC Payment Notice***”) no later than 11:00 A.M. on the Business Day immediately succeeding such payment date (such date, the “***LC Notice Date***”). The Administrative Agent shall forward to each Lender no later than 1:00 P.M. on an LC Notice Date, the applicable LC Payment Notice. Each Lender severally agrees to purchase a participation in the Reimbursement Obligation of the Borrower to such LC Issuing Bank by paying to the Administrative Agent for the account of such LC Issuing Bank an amount equal to such Lender’s Pro Rata Percentage of such unreimbursed amount paid by such LC Issuing Bank (such amount, an “***LC Disbursement***”), plus interest on such amount at a rate per annum equal to the Federal Funds Rate from the date of the payment by such LC Issuing Bank to the date of payment to such LC Issuing Bank by such Lender. Each such payment by a Lender shall be made not later than 3:00 P.M. on the applicable LC Notice Date. Each Lender’s obligation to make each such payment to the Administrative Agent for the account of such LC Issuing Bank shall be several and shall not be affected by the occurrence or continuance of a Default or the failure of any other Lender to make any payment under this Section 2.04(e). Each Lender further agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(f) The failure of any Lender to make any payment to the Administrative Agent for the account of any LC Issuing Bank in accordance with paragraph (e) above shall not relieve any other Lender of its obligation to make payment, but no Lender shall be responsible for the failure of any other Lender.

(g) The payment obligations of each Lender under Section 2.04(e) and of the Borrower under this Agreement in respect of any payment under any Letter of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following circumstances:

(i) any lack of validity or enforceability of this Agreement or any other agreement or instrument relating thereto or to such Letter of Credit;

(ii) any amendment or waiver of, or any consent to departure from, the terms of this Agreement or such Letter of Credit;

(iii) the existence of any claim, set-off, defense or other right that the Borrower may have at any time against any beneficiary, or any transferee, of such Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), any LC Issuing Bank, or any other Person, whether in connection with this Agreement, the transactions contemplated hereby, thereby or by such Letter of Credit, or any unrelated transaction;

(iv) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment in good faith by any LC Issuing Bank under the Letter of Credit issued by such LC Issuing Bank against presentation of a draft or certificate that does not comply with the terms of such Letter of Credit;

(vi) the use that may be made of any Letter of Credit by, or any act or omission of, the beneficiary of any Letter of Credit (or any Person for which the beneficiary may be acting); or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

(h) Without limiting any other provision of this Section 2.04, for purposes of this Section 2.04, any LC Issuing Bank may rely upon any oral, telephonic, telegraphic, facsimile, electronic, written or other communication believed in good faith to have been authorized by the Borrower, whether or not given or signed by an authorized Person of the Borrower.

(i) The Borrower assumes all risks of the acts and omissions of any beneficiary or transferee of any Letter of Credit. Neither any LC Issuing Bank, the Lenders nor any of their respective officers, directors, employees, agents or Affiliates shall be liable or responsible for (i) the use that may be made of such Letter of Credit or any acts or omissions of any beneficiary or transferee thereof in connection therewith; (ii) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (iii) payment by any LC Issuing Bank against presentation of documents that do not comply with the terms of such Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit; or (iv) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit, except that the Borrower and each Lender shall have the right to bring suit against each LC Issuing Bank, and each LC Issuing Bank shall be liable to the Borrower and any Lender, to the extent of any direct, as opposed to consequential, damages suffered by the Borrower or such Lender that the Borrower or such Lender proves were caused by such LC Issuing Bank's willful misconduct or gross negligence, including, in the case of the Borrower, such LC Issuing Bank's (x) failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof or (y) failure to make timely payment under such Letter of Credit following the presentation to it by the beneficiary thereof of a draft and accompanying certificate(s) that strictly comply with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, each LC Issuing Bank may accept sight drafts and accompanying certificates presented under the Letter of Credit issued by such LC Issuing Bank that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and payment against such documents shall not constitute willful misconduct or gross negligence by such LC Issuing Bank. Notwithstanding the foregoing, no Lender (in its capacity as a Lender) shall be obligated to indemnify the Borrower for damages caused by any LC Issuing Bank's willful misconduct or gross negligence.

(j) Notwithstanding anything to the contrary set forth herein, on the first date on which the conditions precedent listed in Sections 3.01, 3.02(b), 3.02(c) and 3.02(d) shall be satisfied, the Existing Letters of Credit shall be deemed to be "Letters of Credit" issued hereunder, resulting in Extensions of Credit on such date hereunder; and on such date the Administrative Agent shall confirm in writing to the Borrower and the relevant LC Issuing Banks the occurrence of such Extensions of Credit.

(k) Any LC Issuing Bank may and, if such LC Issuing Bank is a Lender being replaced pursuant to Section 2.23(b), such LC Issuing Bank shall, resign at any time by giving written notice thereof to the Administrative Agent, the Lenders and the Borrower, with any such resignation to become effective (i) if such LC Issuing Bank is the Administrative Agent and the Administrative Agent has given notice of its resignation or has been removed in accordance with Section 8.08, on the Resignation Effective Date or Removal Effective Date, as applicable, (ii) if such LC Issuing Bank is party to an Assignment and Acceptance whereby it intends to assign all of its Advances and Commitment to an Eligible Assignee pursuant to Section 2.23(b) or 7.05(b), on the effective date of such assignment or (iii) otherwise, on the later of (x) 30 days after delivery of such notice and (y) such date as agreed by such LC Issuing Bank; provided that if such resigning LC Issuing Bank is the only LC Issuing Bank at the time of its resignation and there is no Administrative Agent, the Borrower shall have the right to appoint a successor LC

Issuing Bank, which shall be a Lender or an Eligible Assignee acceptable to the Required Lenders. If no successor LC Issuing Bank shall have been so appointed by the Borrower, and shall have accepted such appointment, within 30 days after the retiring LC Issuing Bank's giving of notice of resignation, then the retiring LC Issuing Bank may, on behalf of the Borrower and Lenders, appoint a successor LC Issuing Bank, which shall be a Lender or an Eligible Assignee acceptable to the Borrower. Except as provided in the immediately succeeding sentence, upon the acceptance of any appointment as an LC Issuing Bank hereunder by a successor LC Issuing Bank, such successor LC Issuing Bank shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring LC Issuing Bank. Except as provided in Section 8.08(d) with respect to any LC Issuing Bank which is a resigning Administrative Agent, after the effective date of the resignation of an LC Issuing Bank hereunder, the retiring LC Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an LC Issuing Bank under this Agreement and the other Loan Documents with respect to Letters of Credit issued by it prior to such resignation, but shall no longer have an LC Commitment and shall not be required to issue additional Letters of Credit or to extend, renew or increase any existing Letter of Credit.

Section 2.05 Increase of the Commitments.

(a) After the Closing Date, the Borrower may on one or more occasions, by written notice to the Administrative Agent and executed by the Borrower and one or more financial institutions (any such financial institution referred to in this paragraph (a) being called a "***Designated Lender***"), which may include, in the Borrower's sole discretion, any Lender, cause new Commitments to be extended by the Designated Lenders (or cause the Commitments of the Designated Lenders to be increased, as the case may be); provided that (i) at no time shall the aggregate amount of all extensions of new Commitments and increases in existing Commitments effected pursuant to this paragraph (a) exceed $500,000,000, (ii) each such requested increase shall be in a minimum principal amount of $50,000,000, (iii) each Designated Lender shall (A) be subject to the approval of the Administrative Agent, each LC Issuing Bank and each Swing Line Bank (which approval shall not be unreasonably withheld or delayed) and (B) if not an existing Lender, execute all such documentation as the Administrative Agent shall reasonably specify to evidence the Commitment or Commitments of such Designated Lender and/or its status as a Lender hereunder, and (iv) immediately prior to and immediately after giving effect to such proposed increase, no Default or Event of Default shall have occurred and be continuing. Extensions of new Commitments and increases in existing Commitments pursuant to this paragraph (a) shall become effective on the date specified in the applicable notice delivered by the Borrower. The Borrower shall deliver (i) a certificate signed by a duly authorized officer of the Borrower to the Administrative Agent, dated as of the effective date of such additional Commitments, stating that all representations and warranties of the Borrower set forth in Article IV (other than the representations and warranties set forth in Sections 4.04 and 4.05(b)) (with all references in such Article to a Borrowing or Swing Line Borrowing being deemed to be references to the increase of the Commitments) are true in all material respects as if made on and as of such effective date (other than with respect to any representation and warranty that expressly relates to an earlier date, in which case such representation and warranty shall be true in all material respects as of such earlier date, and except for any representation and warranty that is qualified by materiality or reference to Material Adverse Change, in which case such representation and warranty shall be true in all respects as of such earlier date), (ii) evidence of appropriate corporate authorization on the part of the Borrower with respect to the increase in the Commitments and (iii) if requested by a Designated Lender, such opinions of counsel for the Borrower with respect to the increase in the Commitments as the Administrative Agent may reasonably request. Any Lender or any other financial institution offered or approached to provide all or a portion of any increase in the Commitment pursuant to this paragraph (a) may elect or decline, in its sole discretion, to provide such Commitment.

(b) The Outstanding Credits will be reallocated on the effective date of such increase among the Lenders in accordance with their revised Pro Rata Shares (and, with respect to any outstanding Advances, the Lenders agree to make all payments and adjustments necessary to effect the reallocation and the Borrower shall pay any and all costs required pursuant to Section 2.13 in connection with such reallocation as if such reallocation were a repayment). Prepayments made under this paragraph (b) shall not be subject to the notice or minimum amount requirements of Section 2.12.

(c) Promptly following the effective date of any Commitment increase pursuant to this Section 2.05, the Administrative Agent shall distribute an amended Schedule I to this Agreement (which shall thereafter be incorporated into this Agreement) to reflect any changes in Lenders, the Commitments and each Lender's Pro Rata Percentage as of such effective date.

Section 2.06 Maturity of Advances; Extension and Termination of Commitment.

(a) Each outstanding Advance shall mature, and the principal amount thereof shall be due and payable in full, and the Commitments and the Swing Line Commitments shall terminate, on the Termination Date.

(b) The Borrower may request up to two one-year extensions of the Termination Date in effect on the date of any such request (the "***Current Termination Date***") (notice of the exercise of which shall be given by the Borrower to the Administrative Agent in writing at least 30 days prior to any anniversary of the Closing Date). Upon the delivery of such a written request by an authorized officer of the Borrower (an "***Extension Request***"), the Administrative Agent promptly shall deliver a copy of such Extension Request to each of the Lenders. Each Lender, acting in its sole discretion, shall by notice made in writing and delivered to the Administrative Agent on a Business Day not more than 30 days following the date of such Extension Request, advise the Administrative Agent whether such Lender agrees to such extension (each Lender agreeing to an Extension Request within such timeframe being referred to herein as an "***Extending Lender***", and each Lender declining to agree to an Extension Request within such timeframe being referred to herein as a "***Non-Extending Lender***"). Any Lender which has not provided written notice to the Administrative Agent indicating whether such Lender agrees to the requested Extension Request prior to the 30th day following the date of such Extension Request shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to agree.

(c) If Lenders constituting the Required Lenders shall not have agreed to the Extension Request on or prior to the 30th day following the date of such Extension Request, then the Current Termination Date shall not be so extended, the principal amount of all Advances and all other amounts payable under this Agreement shall be payable in full and the Commitment shall terminate on the Current Termination Date.

(d) If Lenders constituting the Required Lenders shall have agreed to the Extension Request on or prior to the 30th day following the date of such Extension Request (such date, the "***Extension Date***"), then the Termination Date applicable to Extending Lenders shall be extended to be the day that is one year after the Current Termination Date. In the event of such extension, (w) the Commitments of each Non-Extending Lender shall terminate on the Current Termination Date, (x) the principal amount of all Advances and other amounts payable to each Non-Extending Lender under this Agreement shall be payable in full on the Current Termination Date, (y) the Lenders' aggregate Commitment shall be reduced by the amount of the Commitment of each Non-Extending Lender unless such Non-Extending Lender is replaced pursuant to paragraph (e) below and (z) the outstanding Reimbursement Obligations will be reallocated on the Current Termination Date among the Extending Lenders in accordance with their revised Pro Rata Shares (and the Lenders agree to make all payments and adjustments necessary to effect the reallocation). Prepayments made under this paragraph (d) shall not be subject to the notice requirements of Section 2.12.

(e) In the event that the Termination Date is extended under paragraph (d) above, the Borrower shall have the right, on or before the Current Termination Date, at the Borrower's sole expense and effort, to require any Non-Extending Lender to assign to one or more Eligible Assignees all of its rights and obligations under this Agreement; provided, that such assignment shall be in accordance with, and subject to the requirements and restrictions contained in Section 7.05.

(f) Notwithstanding any of the foregoing provisions of this Section 2.06, no extension of the Termination Date shall become effective for any Lender unless, on the Extension Date, (i) the conditions set forth in Sections 3.02(b) and 3.02(c) (with all references in such Sections to a Borrowing or Swing Line Borrowing being deemed to be references to the extension of the Termination Date) shall be satisfied, and the Administrative Agent shall have received a certificate to that effect, dated the Extension Date and executed on behalf of the Borrower by a Responsible Officer of the Borrower, and (ii) the Administrative Agent shall have received copies (certified to be true and complete by a Responsible Officer of the Borrower) of all governmental approvals (if any) required for each of the Borrower and the Parent in connection with such extension.

Section 2.07 Evidence of Advances.

(a) Each Lender shall maintain an account or accounts evidencing each Advance made by such Lender to the Borrower from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement. Each Lender will make reasonable efforts to maintain the accuracy of its account or accounts, and to update promptly its account or accounts from time to time, as necessary.

(b) The Administrative Agent shall maintain the Register pursuant to Section 7.05(c) and a subaccount for each Lender, in which Register and subaccounts (taken together) shall be recorded (i) the date, amount and Interest Period, if applicable, of each Advance, and whether such Advance is a Base Rate Advance, a Eurodollar Rate Advance or a Swing Line Advance, (ii) the amount of any principal or interest due and payable or to become due and payable to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from or for the account of the Borrower and each Lender's percentage share thereof. The Administrative Agent will make reasonable efforts to maintain the accuracy of the subaccounts referred to in the preceding sentence and to update promptly such subaccounts from time to time, as necessary.

(c) The entries made in the Register and subaccounts maintained pursuant to Section 2.07(b), to the extent permitted by applicable law, shall be prima facie evidence of the existence and amounts of such obligations of the Borrower therein recorded; provided, that the failure of the Administrative Agent or any Lender to maintain any such Register, subaccount or account, as applicable, or any error therein, shall not in any manner affect the obligations of the Borrower to repay the Advances in accordance with the terms thereof.

(d) Upon the request of any Lender, which request shall be made through the Administrative Agent to the Borrower, the Borrower shall deliver to such Lender a duly executed Note in the form of Exhibit D with appropriate insertions as to dates and principal amounts.

Section 2.08 Interest Rates.

(a) The Borrower shall pay interest on the unpaid principal amount of each Advance from and including the date of such Advance to but excluding the date such Advance shall be paid in full (provided, that if the principal amount of any Advance is borrowed and repaid on the same day, the Borrower shall pay interest on such principal amount at the applicable interest rate for such day), at the following rates per annum:

(i) if such Advance is a Base Rate Advance, a variable rate per annum equal at all times to the Base Rate in effect from time to time plus the Applicable Percentage, payable quarterly in arrears on each Payment Date while such Base Rate Advance is outstanding, on the date of each prepayment to the extent required by Section 2.11(a) or 2.12, as applicable, and on the date such Base Rate Advance shall be Converted or paid in full;

(ii) if such Advance is a Eurodollar Rate Advance, a fixed rate per annum during each Interest Period for such Eurodollar Rate Advance equal to the Eurodollar Rate for such Interest Period plus the Applicable Percentage, payable on the last day of the Interest Period (and, in the case of any Interest Period of more than three months' duration, on each day that occurs during such Interest Period every three months after the first day of such Interest Period), on the date of each prepayment to the extent required by Section 2.11(a) or 2.12, as applicable, and on the date such Eurodollar Rate Advance shall be Converted or paid in full; and

(iii) if such Advance is a Swing Line Advance, at the election of the Borrower, a variable rate per annum equal to (A) the LIBOR Market Index Rate plus the Applicable Percentage for Eurodollar Rate Advances or (B) the Base Rate in effect from time to time plus the Applicable Percentage for Base Rate Advances, in each case, payable quarterly in arrears on each Payment Date while such Swing Line Advance is outstanding, on the date of each prepayment to the extent required by Section 2.11(b) or 2.12, as applicable, and on the date such Swing Line Advance shall be paid in full.

(b) Subject to Section 7.02, (i) immediately upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), 6.01(g) or 6.01(h) (in the case of Section 6.01(g) and 6.01(h), with respect to the Borrower and the Parent only), or (ii) at the election of the Required Lenders, upon the occurrence and during the continuance of any other Event of Default, (A) all outstanding Eurodollar Rate Advances shall bear interest at a rate per annum of two percent (2%) in excess of the rate (including the Applicable Percentage) then applicable to Eurodollar Rate Advances until the end of the applicable Interest Period and thereafter at a rate equal to two percent (2%) in excess of the rate (including the Applicable Percentage) then applicable to Base Rate Advances, (B) all outstanding Base Rate Advances and other Obligations shall bear interest at a rate per annum equal to two percent (2%) in excess of the rate (including the Applicable Percentage) then applicable to Base Rate Advances or such other Obligations and (C) all accrued and unpaid interest shall be due and payable on demand of the Administrative Agent. Interest shall continue to accrue on the Obligations after the filing by the Borrower (as to itself) or against the Borrower (as a debtor) of any petition seeking any relief in bankruptcy or under any act or law pertaining to insolvency or debtor relief, whether state, federal or foreign.

(c) Upon the request of the Borrower, the Administrative Agent shall provide the Borrower with evidence of the amount of the Eurodollar Rate Reserve Percentage currently in effect.

Section 2.09 Fees.

(a) Except as set forth in Section 2.24, the Borrower shall pay the Administrative Agent, for the ratable benefit of the Lenders, a facility fee (the "***Facility Fee***") equal to the product of (i) the average daily amount of the Commitments (regardless of usage), multiplied by (ii) a per annum percentage equal to the Applicable Percentage in effect from time to time. The Facility Fee shall accrue from and including the Closing Date to but excluding the Termination Date and shall be payable in arrears on each Payment Date. Subject to Section 2.24(a)(iii), the Administrative Agent shall, promptly following its receipt thereof, distribute to each Lender all Facility Fees received pursuant to this Section 2.09(a) in accordance with their respective Pro Rata Percentages.

(b) Except as set forth in Section 2.24, the Borrower shall pay to the Administrative Agent for the account of each Lender a fee (the "***LC Fee***") with respect to each Letter of Credit in the amount equal to the daily amount available to be drawn under such Letter of Credit multiplied by the Applicable Percentage with respect to Eurodollar Rate Advances (determined on a per annum basis), payable in arrears on each Payment Date. Subject to Section 2.24(a)(iii), the Administrative Agent shall, promptly following its receipt thereof, distribute to each Lender all LC Fees received pursuant to this Section 2.09(b) in accordance with their respective Pro Rata Percentages.

(c) The Borrower shall pay to each LC Issuing Bank such normal and customary costs and expenses as are incurred or charged by such LC Issuing Bank in issuing, effecting payment under, amending or otherwise administering any letter of credit as may be separately agreed between the Borrower and such LC Issuing Bank.

(d) In addition to the fees provided for in paragraphs (a) through (c) above, the Borrower shall pay to the Administrative Agent, for the account of the Administrative Agent and the Joint Lead Arrangers, and to each LC Issuing Bank party thereto such other fees as are provided for in the Fee Letters.

Section 2.10 Termination or Reduction of Commitment.

(a) The Borrower may, upon at least three (3) Business Days' notice to the Lenders, terminate at any time, or reduce from time to time, in each case without premium or penalty, by an aggregate amount of at least $5,000,000 (and integrals of $1,000,000 in excess thereof), the Commitment, the LC Commitment or the Swing Line Commitment.

(b) All accrued Facility Fees (as provided under Section 2.09) on the Commitment (in the case of a termination of the Commitment) or on the portion of the Commitment being reduced (in the case of a reduction of the Commitment) under this Section 2.10 shall be payable on the effective date of such reduction or termination.

(c) The Borrower hereby agrees to repay the outstanding principal amount of (i) all Advances in full on the Termination Date, (ii) all Swing Line Advances in accordance with Section 2.03(c)(iv) (but, in any event, no later than the Termination Date) and (iii) all other Obligations in full on the Termination Date, together with, in each case, without duplication, all accrued but unpaid interest thereon in accordance with this Agreement.

Section 2.11 Mandatory Prepayments.

(a) On each date on which the Commitment is reduced pursuant to Section 2.10, the Borrower shall repay or prepay such principal amount of the outstanding Advances, if any (together with accrued interest thereon to the date of prepayment and any compensation payable pursuant to Section 2.13), and/or deposit funds in the Cash Collateral Account in respect of undrawn Letters of Credit outstanding on such date, as may be necessary so that after such payment and/or deposit, the Outstanding Credits do not exceed the amount of the Commitment as then reduced.

(b) On each date on which the Swing Line Commitments are reduced pursuant to Section 2.10, the Borrower shall repay or prepay such principal amount of the outstanding Swing Line Advances, if any (together with accrued interest thereon to the date of prepayment), as may be necessary so that after such payment the aggregate unpaid principal amount of Swing Line Advances does not exceed the amount of the Swing Line Commitments as then reduced.

(c) On each date on which the LC Commitments are reduced pursuant to Section 2.10, the Borrower shall provide Cash Collateral for each LC Issuing Bank in an amount equal to the amount by which the LC Outstandings for all Letters of Credit issued by such LC Issuing Bank exceeds the LC Commitment of such LC Issuing Bank as then reduced, if any.

Section 2.12 Optional Prepayments. The Borrower may, upon notice delivered to the Administrative Agent not later than 11:00 A.M. (a) on the date of prepayment in the case of any Base Rate Advance or Swing Line Advance, and (b) at least three (3) Business Days prior to such date in the case of any Eurodollar Rate Advance, prepay any such Advance, without premium or penalty, in whole at any time, or from time to time in part in amounts aggregating at least $5,000,000 (and integrals of $1,000,000 in excess thereof) by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment and any compensation payable pursuant to Section 2.13.

Section 2.13 Compensation after Prepayment or Conversion. The Borrower shall, upon the demand of any Lender, pay to such Lender any amounts which are required to compensate such Lender for any losses (excluding losses of anticipated profits), costs or expenses incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain any Eurodollar Rate Advance, or from fees payable to terminate the deposits from which such funds were obtained, which may arise as a result of the optional or mandatory prepayment or Conversion of any Eurodollar Rate Advance, on any date other than the last day of the applicable Interest Period, or the failure to prepay any Advance on the date of prepayment specified in any notice of prepayment, except if arising in connection with a Lender becoming a Defaulting Lender and the replacement of such Lender pursuant to Section 2.23(b) or the termination of the Commitment of such Lender pursuant to Section 2.24(d). The amount of such loss or expense shall be determined, in the applicable Lender's sole discretion, based upon the assumption that such Lender funded its Pro Rata Share of the Eurodollar Rate Advances in the London interbank market and using any reasonable attribution or averaging methods which such Lender deems appropriate and practical. A certificate of such Lender setting forth in reasonable detail the basis for determining such amount or amounts necessary to compensate such Lender delivered by such Lender to the Administrative Agent no later than twelve (12) months after the event giving rise to the claim for compensation (except that, if the Change in Law giving rise to such claim is retroactive, then the twelve-month period referred to above shall be extended to include the period of retroactive effect thereof) shall be promptly forwarded to the Borrower through the Administrative Agent and shall be conclusively presumed to be correct save for manifest error. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall (unless the subject of a good faith dispute by the Borrower) be payable within fifteen (15) days after demand and receipt by the Borrower of such written statement, unless such Lender shall have failed to timely give notice of such claim for compensation as provided herein, in which event the Borrower shall not have any obligation to pay such claim.

Section 2.14 General Provisions as to Payments.

(a) The Borrower shall make each payment of principal of, and interest on, the Advances, the LC Fee and the Facility Fees hereunder not later than 1:00 P.M. on the date when due in federal or other funds immediately available without setoff or counterclaim to the Administrative Agent for the account of each Lender at its Lending Office. Upon receipt by the Administrative Agent of each such payment, the Administrative Agent shall distribute to each Lender, at its Lending Office, its Pro Rata Share of such payment, including each Lender's Pro Rata Share of Swing Line Advances purchased by such Lender in accordance with Section 2.03(d). If and to the extent that the Administrative Agent shall not have so distributed to any

Lender, at its Lending Office, its Pro Rata Share of such payment, the Administrative Agent agrees to pay to such Lender forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Lender until the date such amount is paid to such Lender, at the Federal Funds Rate.

(b) Subject to the qualifications set forth in the definition of “Interest Period”, whenever any payment of principal of, or interest on, the Advances or of Facility Fees or the LC Fee payable hereunder shall be due on a day that is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payab1e for such extended time.

Section 2.15 Computation of Interest and Fees. All computations of interest for Base Rate Advances and Swing Line Advances determined by reference to the Base Rate, in each case when the Base Rate is determined by the Prime Rate shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest provided hereunder shall be made on the basis of a 360-day year and actual days elapsed.

Section 2.16 Compensation, Additional Interest.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the Eurodollar Rate), any Swing Line Bank or any LC Issuing Bank;

(ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of “Excluded Taxes” and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender, any Swing Line Bank or any LC Issuing Bank or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or Advances made by such Lender, Swing Line Bank or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender, Swing Line Bank or such other Recipient of making, Converting to, Continuing or maintaining any Advance or of maintaining its obligation to make any such Advance, or to increase the cost to such Lender, such Swing Line Bank, such LC Issuing Bank or such other Recipient of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender, Swing Line Bank, LC Issuing Bank or other Recipient hereunder with respect to such Advance or Letter of Credit (whether of principal, interest or any other amount) then, upon request of such Lender, Swing Line Bank, LC Issuing Bank or other Recipient, the Borrower will pay to such Lender, Swing Line Bank, LC Issuing Bank or other Recipient, as the case may be, such additional amount or amounts as will compensate such Lender, Swing Line Bank, LC Issuing Bank or other Recipient, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender, Swing Line Bank or LC Issuing Bank determines that any Change in Law affecting such Lender, Swing Line Bank, or LC Issuing Bank or any lending office of such Lender, such Swing Line Bank or such Lender's, Swing Line Bank's or LC Issuing Bank's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on such Lender's, Swing Line Bank's or LC Issuing Bank's capital or on the capital of such Lender's, Swing Line Bank's or LC Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender, the Swing Line Commitments of such Swing Line Bank or the Advances made by, or participations in Letters of Credit or Swing Line Advance held by, such Lender, or the Letters of Credit issued by any LC Issuing Bank, to a level below that which such Lender, Swing Line Bank or LC Issuing Bank or such Lender's, Swing Line Bank's or LC Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's, Swing Line Bank's or LC Issuing Bank's policies and the policies of such Lender's, Swing Line Bank's or LC Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender, Swing Line Bank or LC Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender, Swing Line Bank or LC Issuing Bank or such Lender's, Swing Line Bank's or LC Issuing Bank's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender, Swing Line Bank, LC Issuing Bank or other Recipient setting forth in reasonable detail the basis, method and calculations upon which such Lender, Swing Line Bank, LC Issuing Bank or other Recipient determined the amount or amounts necessary to compensate such Lender, Swing Line Bank, LC Issuing Bank, other Recipient or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and delivered to the Borrower, shall be conclusive absent manifest error. The Borrower shall pay such Lender, Swing Line Bank or LC Issuing Bank, as the case may be, the amount shown as due on any such certificate within 15 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender, Swing Line Bank, LC Issuing Bank or other Recipient to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's, Swing Line Bank's, LC Issuing Bank's or other Recipient's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender, Swing Line Bank, LC Issuing Bank or other Recipient pursuant to this Section for any increased costs incurred or reductions suffered more than four (4) months prior to the date that such Person notifies the Borrower of the Change in Law giving rise to such increased costs or reductions, and of such Person's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the four-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Subject to the requirements of Section 7.05(e), the provisions of this Section 2.16 shall be applicable with respect to any Participant or Assignee, and any calculations required by such provisions shall be based upon the circumstances of such Participant or Assignee.

Section 2.17 Taxes.

(a) Defined Terms. For purposes of this Section 2.17, the term “Lender” includes any LC Issuing Bank and the term “applicable law” includes FATCA.

(b) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of an applicable Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by the Borrower shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) Payment of Other Taxes by the Borrower. The Borrower shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(d) Indemnification by the Borrower. The Borrower shall indemnify each Recipient, within 15 days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate (together with a copy of the applicable documents from the Governmental Authority imposing such Indemnified Taxes) as to the amount of such payment or liability and setting forth in reasonable detail the basis for such payment or liability delivered to the Borrower by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(e) Indemnification by the Lenders. Each Lender shall severally indemnify the Administrative Agent, within 10 days after demand therefor, for (i) any Indemnified Taxes attributable to such Lender (but only to the extent that the Borrower has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrower to do so), (ii) any Taxes attributable to such Lender’s failure to comply with the provisions of Section 7.05(e) relating to the maintenance of a Participant Register and (iii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this paragraph (e).

(f) Evidence of Payments. As soon as practicable after any payment of Taxes by the Borrower to a Governmental Authority pursuant to this Section 2.17, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(g) Status of Lenders. (i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Borrower and the Administrative Agent, at the time or times reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Sections 2.17(g)(ii)(A), 2.17(g)(ii)(B) and 2.17(g)(ii)(D)) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

(ii) Without limiting the generality of the foregoing:

(A) any Lender that is a U.S. Person shall deliver to the Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed copies of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), whichever of the following is applicable:

(1) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

(2) executed copies of IRS Form W-8ECI;

(3) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of Exhibit F-1 to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code (a "***U.S. Tax Compliance Certificate***") and (y) executed copies of IRS Form W-8BEN; or

(4) to the extent a Foreign Lender is not the beneficial owner, executed copies of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN, a U.S. Tax Compliance Certificate substantially in the form of Exhibit F-2 or Exhibit F-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit F-4 on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed copies of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the Closing Date.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower and the Administrative Agent in writing of its legal inability to do so.

(h) Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 2.17 (including by the payment of additional amounts pursuant to this Section 2.17), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this paragraph (h) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph (h), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this paragraph (h) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(i) Survival. Each party's obligations under this Section 2.17 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, Swing Line Bank or LC Issuing Bank, the termination of the Commitments, Swing Line Commitments and LC Commitments, and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 2.18 Changed Circumstances.

(a) Circumstances Affecting LIBOR Rate Availability. In connection with any request for a Eurodollar Rate Advance, a LIBOR Market Index Rate Advance or a Base Rate Advance as to which the interest rate is determined with reference to the LIBOR Market Index Rate or a Conversion to or Continuation thereof, if for any reason (i) the Administrative Agent shall determine (which determination shall be conclusive and binding absent manifest error) that Dollar deposits are not being offered to banks in the London interbank Eurodollar market for the applicable amount and Interest Period of such Advance, (ii) the Administrative Agent shall determine (which determination shall be conclusive and binding absent manifest error) that any of the means set forth in the definition of “LIBOR” or “LIBOR Market Index Rate” do not exist for ascertaining the Eurodollar Rate for such Interest Period with respect to a proposed Eurodollar Rate Advance, any LIBOR Market Index Rate Advance or any Base Rate Advance as to which the interest rate is determined with reference to the LIBOR Market Index Rate or (iii) the Required Lenders shall determine (which determination shall be conclusive and binding absent manifest error) that the Eurodollar Rate does not adequately and fairly reflect the cost to such Lenders of making or maintaining such Advances during such Interest Period, or the LIBOR Market Index Rate does not adequately and fairly reflect the cost to such Lenders or Swing Line Banks, as applicable, of making or maintaining such Advances, then the Administrative Agent shall promptly give notice thereof to the Borrower. Thereafter, until the Administrative Agent notifies the Borrower that such circumstances no longer exist, the obligation of the Lenders to make Eurodollar Rate Advances, LIBOR Market Index Rate Advances or Base Rate Advances as to which the interest rate is determined with reference to the LIBOR Market Index Rate and the right of the Borrower to Convert any Advance to or Continue any Advance as a Eurodollar Rate Advance, LIBOR Market Index Rate Advance or a Base Rate Advance as to which the interest rate is determined with reference to the LIBOR Market Index Rate shall be suspended, and the Borrower shall either (i) without regard to notice or minimum amount requirements set forth in Section 2.12, repay in full (or cause to be repaid in full) the then outstanding principal amount of each such Advance together with accrued interest thereon (subject to Section 2.15), on the last day of the then current Interest Period applicable to such Advance; or (ii) Convert the then outstanding principal amount of each such Advance to a Base Rate Advance as to which the interest rate is not determined by reference to the LIBOR Market Index Rate as of the last day of such Interest Period.

(b) Laws Affecting LIBOR Rate Availability. If any Change in Law shall make it unlawful or impossible for any of the Lenders (or any of their respective Lending Offices) to honor its obligations hereunder to make or maintain any Eurodollar Rate Advance, any LIBOR Market Index Rate Advance or any Base Rate Advance as to which the interest rate is determined by reference to the LIBOR Market Index Rate (such Lenders so affected, the “***Affected Lenders***”), such Affected Lenders shall promptly give notice thereof to the Administrative Agent and the Administrative Agent shall promptly give notice to the Borrower and the other Lenders. Thereafter, until the Administrative Agent notifies the Borrower that such circumstances no longer exist, (i) the obligations of the Affected Lenders to make their respective portions of Eurodollar Rate Advances, LIBOR Market Index Rate Advances or Base Rate Advances as to which the interest rate is determined by reference to the LIBOR Market Index Rate, and the right of the Borrower to Convert such Affected Lenders’ portion of any Advance to a Eurodollar Rate Advance or Continue such Affected Lenders’ portion of any

Advance as a Eurodollar Rate Advance, LIBOR Market Index Rate Advance or a Base Rate Advance as to which the interest rate is determined by reference to the LIBOR Market Index Rate shall be suspended and thereafter the Borrower may select only Base Rate Advances as to which the interest rate is not determined by reference to the LIBOR Market Index Rate hereunder with respect to such Affected Lenders' portion of any Advances, (ii) such Affected Lenders' portion of all Base Rate Advances shall cease to be determined by reference to the LIBOR Market Index Rate and (iii) if such Affected Lenders may not lawfully continue to maintain a Eurodollar Rate Advance or a LIBOR Market Index Rate Advance to the end of the then current Interest Period applicable thereto, such Affected Lenders' portion of the applicable Advance shall immediately be Converted to a Base Rate Advance as to which the interest rate is not determined by reference to the LIBOR Market Index Rate for the remainder of such Interest Period.

Section 2.19 Conversion of Advances.

(a) The Borrower may on any Business Day, upon notice given to the Administrative Agent not later than 11:00 A.M. on the third Business Day prior to the date of any proposed Conversion into or Continuation as Eurodollar Rate Advances and on the Business Day of any proposed Conversion into Base Rate Advances subject to the provisions of Section 2.18, Convert all Advances of one Type into Advances of another Type or Types or Continue Advances of the same Type having the same or a new Interest Period; provided that no Advance shall be Converted to or Continued as a Eurodollar Rate Advance if any Event of Default shall have occurred and be continuing. Each such notice of a Conversion or Continuation shall, within the restrictions specified above, specify (i) the date of such Conversion or Continuation, (ii) the Advances to be Converted or Continued and (iii) with respect to any Continuation, or if such Conversion is into, or with respect to Eurodollar Rate Advances, the duration of the Interest Period for each such Advance.

(b) If the Borrower shall fail to select the Type of any Advance or the duration of any Interest Period for any Eurodollar Rate Advance in accordance with the provisions contained in the definition of "Interest Period" and Section 2.19(a) or if any proposed Conversion of an Advance to a Eurodollar Rate Advance upon Conversion shall not occur as a result of the circumstances described in Section 2.18 or 2.19(c), such Advance will automatically, on the last day of the then-existing Interest Period therefor, Convert into a Base Rate Advance.

(c) Each notice of Conversion or Continuation given pursuant to Section 2.19(a) shall be irrevocable and binding on the Borrower. In the case of any Advance that is to be Converted to a Eurodollar Rate Advance, the Borrower shall indemnify the Lenders against any loss, cost or expense incurred by the Lenders as a result of any failure to fulfill on the date specified for such Conversion the applicable conditions set forth in Article III, including any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund such Eurodollar Rate Advance, upon such Conversion, when such Conversion, as a result of such failure, does not occur. The Borrower's obligations under this paragraph (c) shall survive the repayment of all other amounts owing to the Lenders under this Agreement and the other Loan Documents and the termination of the Commitment.

(d) References in this Section 2.19 to "Advances" and "Types of Advances" shall not include the Swing Line Advances.

Section 2.20 Set off. Each Lender, Swing Line Bank and LC Issuing Bank may at any time upon or after the occurrence and during the continuance of an Event of Default, and without notice to the Borrower, set-off against the obligations of the Borrower under this Agreement the whole or any portion or portions of any or all deposits and other sums credited by or due from such Lender, Swing Line Bank or LC Issuing Bank to the Borrower or subject to withdrawal by the Borrower, whether or not any other Person or Persons could also withdraw money therefrom; provided that in the event that any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 2.24 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent, the LC Issuing Banks, the Swing Line Banks and the Lenders, and (y) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the obligations owing to such Defaulting Lender pursuant to this Agreement as to which it exercised such right of setoff. The rights of each Lender, Swing Line Bank and LC Issuing Bank under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender or LC Issuing Bank may have in law or in equity. Each Lender, Swing Line Bank and LC Issuing Bank agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application; provided that the failure to give such notice shall not affect the validity of such setoff and application.

Section 2.21 Pro Rata Treatment. Except to the extent otherwise provided herein:

(a) Each payment or prepayment of principal of any Advance, and each payment of interest on the Advances, shall be allocated first, to the payment or prepayment of principal of, or interest on, the Swing Line Advances (x) initially, if such payment is to satisfy the requirements of Section 2.03(c)(iv), to the applicable Swing Line Bank in accordance with Section 2.03(c)(iv) and (y) then, pro rata among the Swing Line Banks in accordance with the respective principal amounts of their outstanding Swing Line Advances; and second, pro rata among the Lenders in accordance with the respective principal amounts of their outstanding Advances. Each payment of the Facility Fee and the LC Fee, each reduction of the Commitments and each Conversion or extension of any Advance shall be allocated pro rata among the Lenders in accordance with their Pro Rata Percentages.

(b) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a Borrowing that such Lender will not make the amount that would constitute its Pro Rata Share of such Borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate reasonably determined by the Administrative Agent in accordance with banking industry rules on interbank compensation and (B) in the case of a payment to be made by the Borrower, the interest rate applicable to the Advances made in connection with such Borrowing. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Advance included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(c) The obligations of the Lenders under this Agreement to make Advances and issue or participate in Letters of Credit are several and are not joint or joint and several. The failure of any Lender to make available its Pro Rata Share of any Advance requested by the Borrower shall not relieve it or any other Lender of its obligation, if any, hereunder to make its Pro Rata Share of such Advance available on the borrowing date, but no Lender shall be responsible for the failure of any other Lender to make its Pro Rata Share of such Advance available on the borrowing date.

Section 2.22 Sharing of Payments. The Lenders agree among themselves that, in the event that any Lender shall obtain payment in respect of any Advance or any other obligation owing to such Lender under this Agreement through the exercise of a right of set-off, banker's lien or counterclaim, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, in excess of its Pro Rata Share of such payment as provided for in this Agreement, such Lender shall promptly purchase from the other Lenders a Participation Interest in such Advances and other obligations in such amounts, and make such other adjustments from time to time, as shall be equitable to the end that all Lenders share such payment in accordance with their respective ratable shares as provided for in this Agreement. The Lenders further agree among themselves that if payment to a Lender obtained by such Lender through the exercise of a right of set-off, banker's lien, counterclaim or other event as aforesaid shall be rescinded or must otherwise be restored, each Lender which shall have shared the benefit of such payment shall, by repurchase of a Participation Interest theretofore sold, return its share of that benefit (together with its share of any accrued interest payable with respect thereto) to each Lender whose payment shall have been rescinded or otherwise restored. The Borrower agrees that any Lender so purchasing such a Participation Interest may, to the fullest extent permitted by law, exercise all rights of payment, including set-off, banker's lien or counterclaim, with respect to such Participation Interest as fully as if such Lender were a holder of such Advance or other obligation in the amount of such Participation Interest. Except as otherwise expressly provided in this Agreement, if any Lender or the Administrative Agent shall fail to remit to the Administrative Agent or any other Lender an amount payable by such Lender or the Administrative Agent to the Administrative Agent or such other Lender pursuant to this Agreement on the date when such amount is due, such payments shall be made together with interest thereon for each date from the date such amount is due until the date such amount is paid to the Administrative Agent or such other Lender at a rate per annum equal to the Federal Funds Rate. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this Section 2.22 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders under this Section 2.22 to share in the benefits of any recovery on such secured claim. The provisions of this Section 2.22 shall not be construed to apply to (A) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), (B) the application of Cash Collateral provided for in Section 2.25 or (C) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Advances or participations in Swing Line Advances and Letters of Credit to any assignee or participant.

Section 2.23 Mitigation of Obligations; Replacement of Lenders.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 2.16, or requires the Borrower to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or any Lender delivers notice pursuant to Section 2.18(b), then such Lender shall (at the request of the Borrower) use reasonable efforts to designate a different lending office for funding or booking its Advances hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.16 or 2.17, as the case may be, in the future, or would eliminate or reduce the effect of any Change in Law that resulted in such notice having been delivered by such Lender pursuant to Section 2.18(b), and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 2.16, or if the Borrower is required to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17 and, in each case, such Lender has declined or is unable to designate a different lending office in accordance with Section 2.23(a), or if any Lender is a Defaulting Lender, Affected Lender or a Non-Consenting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 7.05(b)), all of its interests, rights (other than its existing rights to payments pursuant to Section 2.16 or 2.17) and obligations under this Agreement and the related Loan Documents to an Eligible Assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that:

(i) the Borrower shall have paid (or caused to be paid) to the Administrative Agent the assignment fee (if any) specified in Section 7.05 (b)(iv);

(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Advances and participations in Letters of Credit, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 2.13 as though such assignment were a prepayment) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(iii) in the case of any such assignment resulting from a claim for compensation under Section 2.16 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments thereafter;

(iv) such assignment does not conflict with applicable law;

(v) in the case of any assignment resulting from a Lender becoming a Non-Consenting Lender, the applicable assignee shall have consented to the applicable amendment, waiver or consent; and

(vi) in the case of any assignment resulting from a Lender becoming an Affected Lender, the Borrower shall have required all such Affected Lenders to assign all such interests, rights and obligations to an assignee (or assignees) that is not an Affected Lender.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

Section 2.24 Defaulting Lenders.

(a) Defaulting Lender Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(i) *Waivers and Amendments*. Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definition of "Required Lenders" and Section 7.04.

(ii) *Defaulting Lender Waterfall*. Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VI or otherwise, and including any amounts made available to the Administrative Agent by such Defaulting Lender pursuant to Section 2.20) shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder; second, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to any LC Issuing Bank or Swing Line Bank hereunder; third, subject to Section 2.24(a)(v), if so determined by the Administrative Agent or requested by any LC Issuing Bank or Swing Line Bank, to Cash Collateralize the LC Issuing Banks' and Swing Line Bank's Fronting Exposure with respect to such Defaulting Lender in accordance with Section 2.25; fourth, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Advance in respect of which such

Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; fifth, if so determined by the Administrative Agent and the Borrower, to be held in a non-interest bearing deposit account and released pro rata in order to (x) satisfy such Defaulting Lender's potential future funding obligations with respect to Advances under this Agreement and (y) Cash Collateralize the LC Issuing Banks' future Fronting Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 2.25; sixth, to the payment of any amounts owing to the Lenders, the LC Issuing Banks or the Swing Line Banks as a result of any judgment of a court of competent jurisdiction obtained by any Lender, any LC Issuing Bank or any Swing Line Bank against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and eighth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (x) such payment is a payment of the principal amount of any Advances or LC Disbursements in respect of which such Defaulting Lender has not fully funded its appropriate share, and (y) such Advances were made or the related Letters of Credit were issued at a time when the conditions set forth in Section 3.02 were satisfied or waived, such payment shall be applied solely to pay the Advances of and LC Disbursements owed to, all Non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Advances of, or LC Disbursements owed to, such Defaulting Lender. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.24(a)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) *Certain Fees*. (A) Such Defaulting Lender shall be entitled to receive a Facility Fee for any period during which that Lender is a Defaulting Lender only to extent allocable to the sum of (1) the aggregate outstanding principal amount of the Base Rate Advances and Eurodollar Rate Advances funded by it, and (2) its Pro Rata Percentage of the stated amount of Letters of Credit and Swing Line Advances for which it has provided Cash Collateral pursuant to Section 2.25.

(B) Such Defaulting Lender shall be entitled to receive LC Fees for any period during which that Lender is a Defaulting Lender only to the extent allocable to its Pro Rata Percentage of the stated amount of Letters of Credit for which it has provided Cash Collateral pursuant to Section 2.25.

(C) With respect to any Facility Fee or LC Fee not required to be paid to any Defaulting Lender pursuant to sub-clause (A) or (B) above, the Borrower shall (x) pay to each Non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's participation in LC Disbursements or Swing Line Advances that has been reallocated to such Non-Defaulting Lender pursuant to clause (iv) below, (y) pay to each LC Issuing Bank and Swing Line Bank, as applicable, the amount of any such fee otherwise payable to such Defaulting Lender to the extent allocable to such LC Issuing Bank's or Swing Line Bank's Fronting Exposure with respect to such Defaulting Lender, and (z) not be required to pay the remaining amount of any such fee.

(iv) *Reallocation of Participations to Reduce Fronting Exposure*. For purposes of computing the amount of each Non-Defaulting Lender's obligation to acquire, purchase, refinance or fund participations in Letters of Credit or Swing Line Advances pursuant to Sections 2.03 and 2.04, the "Pro Rata Percentage" and "Pro Rata Share" of each such Non-Defaulting Lender shall be computed without giving effect to the Commitment of any Defaulting Lender; provided that, (i) each such reallocation shall be given effect only if, at the date the applicable Lender becomes a Defaulting Lender, the conditions set forth in Section 3.02 are satisfied (and, unless the Borrower shall have otherwise notified the Administrative Agent at such time, the Borrower shall be deemed to have represented and warranted that such conditions are satisfied at such time); and (ii) the aggregate amount of each Non-Defaulting Lender's obligation to acquire, purchase, refinance or fund participations in Letters of Credit and Swing Line Advances shall not exceed the positive difference, if any, of (1) the Commitment of such Non-Defaulting Lender minus (2) the Outstanding Credits of such Non-Defaulting Lender.

(v) *Cash Collateral, Repayment of Swing Line Advances*. If the reallocation described in clause (iv) above cannot, or can only partially, be effected, the Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, (x) first, at the Borrower's election, (A) prepay Swing Line Advances in an amount equal to the Swing Line Banks' Fronting Exposure or (B) Cash Collateralize the Swing Line Banks' Fronting Exposure in accordance with the procedures set forth in Section 2.25 and (y) second, Cash Collateralize the LC Issuing Banks' Fronting Exposure in accordance with the procedures set forth in Section 2.25.

(b) Defaulting Lender Cure. If the Borrower, the Administrative Agent, each Swing Line Bank and each LC Issuing Bank agree in writing that a Lender is no longer a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Advances of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Advances and funded and unfunded participations in Letters of Credit and Swing Line Advances to be held pro rata by the Lenders in accordance with their Pro Rata Percentages (without giving effect to Section 2.24(a)(iv)), whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder in any Lender's status from Defaulting Lender to Non-Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

(c) New Swing Line Advances/Letters of Credit. So long as any Lender is a Defaulting Lender, (i) no Swing Line Bank shall be required to fund any Swing Line Advances unless it is satisfied that it will have no Fronting Exposure after giving effect to such Swing Line Advance and (ii) no LC Issuing Bank shall be required to issue, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no Fronting Exposure after giving effect thereto.

(d) Termination of Defaulting Lenders. The Borrower may terminate the unused amount of the Commitment of any Defaulting Lender upon not less than three (3) Business Days' prior notice to the Administrative Agent (which shall promptly notify the Lenders thereof), and in such event the provisions of Section 2.24(a)(ii) will apply to all amounts thereafter paid by the Borrower for the account of such Defaulting Lender under this Agreement (whether on account of principal, interest, fees, indemnity or other amounts); provided that such termination shall not be deemed to be a waiver or release of any claim the Borrower, the Administrative Agent, any LC Issuing Bank, any Swing Line Bank or any other Lender may have against such Defaulting Lender

(e) No Waiver. The rights and remedies against, and with respect to, a Defaulting Lender under this Section 2.24 are in addition to, and cumulative and not in limitation of, all other rights and remedies that the Administrative Agent and each Lender, each LC Issuing Bank, each Swing Line Bank or the Borrower may at any time have against, or with respect to, such Defaulting Lender. In particular, no reallocation under Section 2.24(a)(iv) shall constitute a waiver or release of any claim the Borrower, the Administrative Agent, any LC Issuing Bank, any Swing Line Bank or any Lender may have against a Defaulting Lender arising from such Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased Outstanding Credits following such reallocation.

Section 2.25 Cash Collateral.

(a) Defaulting Lenders Generally. At any time that there shall exist a Defaulting Lender, within two (2) Business Days following the written request of the Administrative Agent, any LC Issuing Bank (with a copy to the Administrative Agent), or any Swing Line Bank (with a copy to the Administrative Agent), the Borrower shall Cash Collateralize the LC Issuing Banks' Fronting Exposure or the Swing Line Bank's Fronting Exposure, as applicable, with respect to such Defaulting Lender (determined after giving effect to Section 2.24(a)(iv) and any Cash Collateral provided by such Defaulting Lender) in an amount equal to 100% of such Fronting Exposure.

(b) Grant of Security Interest. Each of the Borrower, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grants to the Administrative Agent, for the benefit of the LC Issuing Banks and the Swing Line Banks, as applicable, and agrees to maintain, a first priority security interest in all such Cash Collateral as security for the Defaulting Lenders' obligations to fund participations in respect of Letters of Credit and for the Defaulting Lenders' obligations to purchase their respective Pro Rata Shares in respect of Swing Line Advances, as applicable, to be applied pursuant to paragraph (c) below. If at any time the Administrative Agent determines that Cash Collateral is subject to any right or claim of any

Person other than the Administrative Agent, the Swing Line Banks and/or the LC Issuing Banks as herein provided, or that the total amount of such Cash Collateral is less than the outstanding Fronting Exposure, the Borrower or the applicable Defaulting Lender will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency (in the case of the Borrower, after giving effect to any Cash Collateral provided by the Defaulting Lender).

(c) Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 2.25 or Section 2.24 in respect of Letters of Credit shall be applied to the satisfaction of the applicable Defaulting Lender's obligation to fund participations in respect of Letters of Credit (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the Cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 2.25 or Section 2.24 in respect of Swing Line Advances shall be applied to the payment of the applicable Defaulting Lender's Pro Rata Percentage purchase of Swing Line Advances (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the Cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein

(d) Termination of Requirement. Cash Collateral (or the appropriate portion thereof) provided to reduce any LC Issuing Bank's Fronting Exposure or Swing Line Bank's Fronting Exposure shall be promptly released following (i) the elimination of the applicable Fronting Exposure (including by the termination of Defaulting Lender status of the applicable Lender (or, as applicable, its assignee following compliance with Section 7.05(b)(vii))), or (ii) the determination by the Administrative Agent and each LC Issuing Bank or Swing Line Bank, as applicable, that there exists excess Cash Collateral; provided that, subject to Section 2.24 the Person providing Cash Collateral and each LC Issuing Bank or Swing Line Bank, as applicable, may agree that Cash Collateral shall be held to support future anticipated Fronting Exposure or other obligations.

ARTICLE III
CONDITIONS TO EXTENSIONS OF CREDIT

Section 3.01 Conditions Precedent to Initial Extension of Credit. The obligation of the Lenders to make Advances on the occasion of the initial Borrowing, of any Swing Line Bank to make the initial Swing Line Advance and of any LC Issuing Bank to issue the first Letter of Credit (including the deemed issuance of the Existing Letters of Credit hereunder) is subject to the condition that, on or prior to the date of such first Extension of Credit, the Administrative Agent shall have received the following, each dated as of the same date (unless otherwise indicated), and each in form and substance reasonably satisfactory to the Administrative Agent:

(a) this Agreement, duly executed by the Borrower, each of the Lenders and the Administrative Agent and acknowledged by the Parent;

(b) if requested by any Lender, a Note, payable to such Lender, duly completed and executed by the Borrower;

(c) all documents that the Administrative Agent and the Lenders may reasonably request relating to the existence of the Borrower and the Parent, the corporate authority for and the validity of this Agreement and the other Loan Documents and any other matters relevant hereto, all in form and substance reasonably satisfactory to the Administrative Agent and the Lenders, including a certificate of incumbency of each of the Borrower and the Parent, signed by the Secretary or an Assistant Secretary of the Borrower and the Parent, certifying as to the names, true signatures and incumbency of the officer or officers authorized to execute and deliver the Loan Documents (other than the Support Agreement) to which each is a party and attaching certified copies of the following items: (i) the Support Agreement and the Financial Services Agreement, (ii) the Borrower's and the Parent's Certificates of Incorporation, (iii) the Borrower's and the Parent's By-laws, (iv) the actions taken by the board of directors of the Borrower and the Parent authorizing the Borrower's and the Parent's execution, delivery and performance of this Agreement and the other Loan Documents (other than the Support Agreement) to which each is a party, and (v) all governmental and other third party consents or approvals (if any) required in connection with the execution, delivery and performance of the Loan Documents (other than the Support Agreement) by the Borrower and the Parent;

(d) an opinion of General Counsel or Securities Counsel of the Borrower and the Parent;

(e) an opinion of Reed Smith LLP, counsel for the Borrower and the Parent;

(f) certificates of the Secretary of State of Delaware as to the good standing of the Borrower and the Parent as Delaware corporations;

(g) (i) the unaudited balance sheet of the Borrower as of December 31, 2014 and the related unaudited statements of income and cash flows for the Fiscal Year then ended, and (ii) the unaudited balance sheet of the Borrower as of March 31, 2015 and the related unaudited statements of income and cash flows for such periods;

(h) at least five (5) Business Days prior to the Closing Date, documentation and other information requested by the Administrative Agent from the Borrower and the Parent in order to comply with requirements of the Act;

(i) payment of all (i) fees due to the Administrative Agent, the Joint Lead Arrangers and the Lenders set forth in the Fee Letters and (ii) reasonable fees and expenses of counsel to the Administrative Agent (directly to such counsel if requested by the Administrative Agent) to the extent accrued and unpaid and invoiced to the Borrower prior to or on the Closing Date;

(j) [Intentionally Omitted]; and

(k) such other documents, approvals, and opinions as may be mutually agreed by the Borrower and the Administrative Agent.

Section 3.02 Conditions to All Extensions of Credit. The obligation of the Lenders to make (but not Continue or Convert) Advances on the occasion of each Borrowing, of each Swing Line Bank to make a Swing Line Advance and of each LC Issuing Bank to issue, extend or increase the stated amount of Letters of Credit, including the first Extension of Credit (including the deemed issuance of the Existing Letters of Credit hereunder), is subject to the satisfaction of the following conditions:

(a) the Administrative Agent shall have received a Notice of Borrowing, Notice of Swing Line Borrowing or Request for Issuance, as applicable;

(b) all representations and warranties of the Borrower contained in Article IV (other than the representations and warranties set forth in Sections 4.04 and 4.05(b) which shall only be made and need only be true on the Closing Date) shall be true in all material respects as if made on and as of the date of such Extension of Credit (other than with respect to any representation and warranty that expressly relates to an earlier date, in which case such representation and warranty shall be true in all material respects as of such earlier date, and except for any representation and warranty that is qualified by materiality or reference to Material Adverse Change, in which case such representation and warranty shall be true in all respects as of such earlier date);

(c) immediately prior to and immediately after such Extension of Credit, no Default or Event of Default under this Agreement shall have occurred and be continuing; and

(d) immediately after such Extension of Credit, the Outstanding Credits will not exceed the aggregate Commitment.

The making of each Extension of Credit (other than any Conversion or Continuation of an Advance) shall be deemed to be a representation and warranty by the Borrower on the date of such Extension of Credit that the conditions specified in paragraphs (b), (c) and (d) above have been satisfied.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 4.01 Corporate Existence and Status. Each of the Borrower, the Parent and each Significant Subsidiary of the Parent has been duly organized, is validly existing and in good standing under the laws of the jurisdiction of its incorporation and is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, except where the failure to be so qualified would not reasonably be expected to result in a Material Adverse Change. Each of the Borrower, the Parent and each Significant Subsidiary of the Parent has all corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

Section 4.02 Corporate Power and Authority; Enforceability. The execution, delivery and performance by the Borrower and the Parent of this Agreement and the other Loan

Documents to which the Borrower or the Parent is a party (i) are within the Borrower's and the Parent's respective corporate powers and (ii) have been duly authorized by all necessary corporate action. This Agreement and the other Loan Documents to which the Borrower or the Parent is a party constitute valid and binding agreements of the Borrower and the Parent, as the case may be, enforceable in accordance with their respective terms, and the Notes, if and when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of the Borrower, enforceable in accordance with their respective terms, except, in each case, as the enforceability hereof and thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or similar laws applicable to creditors' rights or the collection of debtors' obligations generally and equitable principles of general applicability.

Section 4.03 Non-Violation.

(a) The execution, delivery and performance by the Borrower and the Parent of this Agreement and the other Loan Documents to which the Borrower or the Parent is a party (i) do not conflict with, result in a breach of or constitute a default under any provision of the articles of incorporation or by-laws (or other analogous formation documents) of the Borrower or the Parent, (ii) do not conflict with, result in a breach of or constitute a default under any provision of any material contract, agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or the Parent, except to the extent such conflict, breach or default would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Change and (iii) do not result in the creation or imposition of any Lien on any asset of the Borrower, the Parent or any Significant Subsidiary of the Parent (other than Permitted Liens).

(b) The execution and delivery by the Borrower and the Parent of this Agreement and the other Loan Documents to which the Borrower or the Parent is a party and the incurring and repayment by the Borrower of the Obligations under the Credit Agreement and the performance by the Parent of the Support Agreement do not violate any law, rule or regulation applicable to the Borrower or the Parent, as applicable.

(c) The performance by the Borrower of its other obligations under this Agreement and the other Loan Documents to which it is a party does not violate any law, rule or regulation applicable to the Borrower except where such violation would not reasonably be expected to have a Material Adverse Change.

Section 4.04 Litigation. There are no pending or, to the knowledge of the Borrower, threatened actions or proceedings (including any Environmental Proceedings) affecting the Borrower, the Parent or any Subsidiary of the Parent before any court, governmental agency or arbitrator, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Change.

Section 4.05 Financial Information.

(a) The consolidated balance sheet of the Parent and its Subsidiaries, as of December 31, 2014, and the related statements of income and cash flows for the Fiscal Year then ended, reported on by independent public accountants of nationally recognized standing (copies of which have been delivered to the Lenders), fairly present, in conformity with GAAP, the consolidated financial position of the Parent and its Subsidiaries, as of such date, and of their results of operations and cash flows for such period stated.

(b) Since December 31, 2014, there has been no Material Adverse Change.

Section 4.06 Approvals. The execution, delivery and performance by the Borrower and the Parent of this Agreement and the other Loan Documents to which the Borrower or the Parent is a party require no action by or in respect of, or filing with, any governmental body, agency or official or any other Person except where the failure to obtain such approval or such violation would not reasonably be expected to result in a Material Adverse Change.

Section 4.07 Use of Proceeds. The proceeds of the Advances and the Letters of Credit will be used by the Borrower for working capital and other general corporate purposes of the Parent and its Subsidiaries. No Advance or Letter of Credit or the use of proceeds thereof will violate Anti-Corruption Laws or applicable Sanctions.

Section 4.08 Investment Company Act; Margin Regulations. Each of Parent and the Borrower is either not an "investment company" under the Investment Company Act of 1940 (the ***"Investment Company Act***") or is exempt from all provisions of the Investment Company Act. Neither the Borrower, the Parent nor any Subsidiary of the Parent will apply the proceeds of any of the Advances, directly or indirectly, for the purpose, either immediate, incidental or ultimate, of purchasing or carrying any Margin Stock, except in compliance with Section 5.02(d).

Section 4.09 Compliance with Laws. Each of the Borrower, the Parent and each Subsidiary of the Parent is in compliance with all applicable laws, regulations and similar requirements of Governmental Authorities (including the Act and all Environmental Requirements), except where the failure to be in compliance would not reasonably be expected to result in a Material Adverse Change.

Section 4.10 Compliance with ERISA.

(a) Except as would not reasonably be expected to result in a Material Adverse Change, the Borrower, the Parent, each Significant Subsidiary of the Parent and each other member of the Controlled Group of the foregoing have fulfilled their respective obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the presently applicable provisions of ERISA and the Code and have not incurred any liability to the PBGC (other than for current premiums, which have been paid when due) or a Plan under Title IV of ERISA (other than liabilities for benefits and administration and operational expenses incurred in the ordinary course of Plan operations). No Plan of the Borrower, the Parent, any Significant Subsidiary of the Parent or any other member of the Controlled Group of the foregoing has been determined to be, or is reasonably expected to be, in "at risk" status (within the meaning of Section 430 of the Code or Section 303 of ERISA). No Multiemployer Plan is, or is expected to be, insolvent (within the meaning of ERISA Section 4245), in reorganization (within the meaning of ERISA Section 4241), or in "critical" status (within the meaning of ERISA Section 304).

(b) All contributions (if any) that the Borrower, the Parent, any Significant Subsidiary of the Parent or any other member of the Controlled Group of the foregoing have been required to make to a Multiemployer Plan have been duly and timely made and none of Borrower, Parent, any Significant Subsidiary of the Parent or any other member of the Controlled Group of the foregoing has incurred any material liability with respect to any Multiemployer Plan other than to make contributions as and when due. None of the Borrower, the Parent, any Significant Subsidiary of the Parent nor any member of the Controlled Group of the foregoing has incurred any Withdrawal Liability that has not been fully paid.

Section 4.11 Environmental Matters. Neither the Borrower, the Parent nor any Significant Subsidiary of the Parent is subject to any Environmental Liability that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Change.

Section 4.12 Taxes. There have been filed on behalf of the Borrower, the Parent and each Significant Subsidiary of the Parent all United States federal, state, provincial and local income, excise, property and other material tax returns that are required to be filed by the Borrower, the Parent and such Significant Subsidiary of the Parent, and all taxes shown to be due pursuant to such returns or pursuant to any assessment received by or on behalf of the Borrower, the Parent and such Significant Subsidiary of the Parent have been, or within the times required by law will be, paid except (i) where the amount or validity thereof currently is being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower, the Parent or such Significant Subsidiary of the Parent, as the case may be, or (ii) where failure to file or nonpayment would not reasonably be expected to result in a Material Adverse Change.

Section 4.13 No Defaults. Neither the Borrower, the Parent nor any Significant Subsidiary of the Parent is in default under or with respect to any material agreement, instrument or undertaking (other than in respect of Debt) to which it is a party, or by which it or any of its properties is bound which would reasonably be expected to result in a Material Adverse Change. No Default or Event of Default has occurred and is continuing.

Section 4.14 Ownership of Borrower and Operating Utilities. The Parent owns directly or indirectly (i) 100% of the Common Stock of the Borrower and (ii) at least 50% of the Common Stock of each Operating Utility, in each case, free and clear of any Lien other than Permitted Liens.

Section 4.15 Ownership of Properties and Assets. Each of the Borrower, the Parent and each Significant Subsidiary of the Parent has title to its properties and assets sufficient for the conduct of its respective business, except where the failure to have such title would not reasonably be expected to result in a Material Adverse Change.

Section 4.16 Full Disclosure. No written information (other than projections, other forward-looking information and information of a general economic or industry specific nature) furnished by the Borrower and the Parent to the Administrative Agent and the Lenders for purposes of or in connection with this Agreement and the Loan Documents or any transaction contemplated hereby or thereby (when taken as a whole for the purposes for which such information is given and read together with all other previously provided information), contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements were made; provided that in the case of projections, such projections were prepared in good faith based on estimates and assumptions believed by the Borrower and the Parent to be reasonable at the time made.

Section 4.17 Anti-Corruption Laws and Sanctions. The Borrower and the Parent have implemented and maintain in effect policies and procedures designed to ensure compliance in all material respects by the Borrower, the Parent, the Subsidiaries of the Parent and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, the Parent, the Subsidiaries of the Parent and their respective directors, officers and employees and to the knowledge of the Borrower its agents, are in compliance with Anti-Corruption Laws and applicable Sanctions. None of (a) the Borrower, the Parent, any Subsidiary of the Parent or any of their respective directors, officers, employees or affiliates, or (b) to the knowledge of the Borrower or the Parent, any agent or representative of the Borrower, the Parent or any Subsidiary of the Parent that will act in any capacity in connection with or benefit from the credit facility established hereby is a Sanctioned Person or currently the subject or target of any Sanctions.

Section 4.18 Margin Stock. The Borrower is not engaged principally or as one of its important activities in the business of extending credit for the purpose of “purchasing” or “carrying” any Margin Stock.

ARTICLE V
COVENANTS

Section 5.01 Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower agrees as follows:

(a) Parent Financial Reporting. The Borrower will cause the Parent to deliver to the Administrative Agent (which shall promptly make such information available to the Lenders in accordance with its customary practice):

(i) as soon as available and in any event within 90 days after the end of each Fiscal Year, a consolidated balance sheet of the Parent and its Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all reported on by independent public accountants of nationally recognized standing, with such report to be free of any “going concern” or similar qualification or exception or any qualification as to the scope of such audit;

(ii) as soon as available and in any event within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year, a consolidated balance sheet of the Parent and its Subsidiaries as of the end of such Fiscal Quarter and the related consolidated statement of income and cash flows for such Fiscal Quarter and for the portion of the Fiscal Year ended at the end of such Fiscal Quarter, setting forth in each case in comparative form the figures for the corresponding Fiscal Quarter and the corresponding portion of the previous Fiscal Year, all certified by a Financial Officer of the Parent to present fairly in all material respects the financial condition of the Parent and its Subsidiaries on a consolidated basis as of their respective dates and the results of operations of the Parent and its Subsidiaries for the respective periods then ended, subject to normal year-end adjustments and the absence of footnotes; and

(iii) no later than five (5) Business Days following the delivery of each set of financial statements referred to in Sections 5.01(a)(i) and 5.01(a)(ii), a certificate of a Financial Officer of the Parent demonstrating and certifying compliance with the financial covenant set forth in Section 5.01(i).

(b) Borrower Financial Reporting. The Borrower will deliver to the Administrative Agent (which shall promptly make such information available to the Lenders in accordance with its customary practice):

(i) as soon as available and in any event within 90 days after the end of each Fiscal Year, a balance sheet of the Borrower as of the end of such Fiscal Year and the related statements of income and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all certified by a Financial Officer of the Borrower to present fairly in all material respects the financial condition of the Borrower as of the date indicated and the results of operations of the Borrower for such Fiscal Year;

(ii) as soon as available and in any event within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year, a balance sheet of the Borrower as of the end of such Fiscal Quarter and the related statement of income and cash flows for such Fiscal Quarter and for the portion of the Fiscal Year ended at the end of such Fiscal Quarter, setting forth in each case in comparative form the figures for the corresponding Fiscal Quarter and the corresponding portion of the previous Fiscal Year, all certified by a Financial Officer of the Borrower to present fairly in all material respects the financial condition of the Borrower as of their respective dates and the results of operations of the Borrower for the respective periods then ended, subject to normal year-end adjustments and the absence of footnotes; and

(iii) simultaneously with the delivery of each set of financial statements referred to in Sections 5.01(b)(i) and 5.01(b)(ii), a certificate of a Financial Officer of the Borrower stating whether, to the knowledge of such Financial Officer, any Default or Event of Default exists on the date of such certificate and, if any Default or Event of Default then exists, setting forth the details thereof and the action which the Borrower or the Parent, as applicable, is taking or proposes to take with respect thereto.

(c) Other Reporting Requirements. The Borrower will, and will cause the Parent to, deliver to the Administrative Agent (which shall promptly make such information available to the Lenders in accordance with its customary practice):

(i) within five (5) Business Days after a Responsible Officer of the Borrower or the Parent becomes aware of the occurrence of any Default or Event of Default, a certificate of a Financial Officer of the Borrower or the Parent, as applicable, setting forth the details thereof and the action which the Borrower or the Parent, as applicable, is taking or proposes to take with respect thereto;

(ii) promptly upon the filing thereof with the SEC, copies of all reports with respect to material litigation which the Borrower, the Parent or any Subsidiary of the Parent files with the SEC;

(iii) within five (5) Business Days after the furnishing thereof, copies of all financial statements and reports sent to the stockholders of the Parent generally, and promptly upon the filing thereof with the SEC, notice by electronic mail of the filing of any financial statements and reports which the Parent filed with the SEC (other than reports referred to in Sections 5.01(a)(i), 5.01(a)(ii) and 5.01(c)(ii));

(iv) promptly upon receipt thereof, notice of any downgrade in the S&P Rating or the Moody's Rating of the Borrower;

(v) simultaneously with the delivery of the certificate referred to in Section 5.01(a)(iii), if any Subsidiary has become or ceased to be a Significant Subsidiary, a revised Schedule II disclosing the Significant Subsidiaries as of the date of such certificate;

(vi) prompt notice of any proposed waiver, amendment, supplement or other modification of any term or condition of the Support Agreement;

(vii) promptly upon the request thereof, such other information and documentation required by bank regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations (including the Act), as from time to time reasonably requested by the Administrative Agent or any Lender;

(viii) if reasonably requested by any Lender (through the Administrative Agent) or the Administrative Agent, the Borrower will furnish to the Administrative Agent evidence of compliance with the Margin Regulations; and

(ix) from time to time such additional information regarding the business, financial condition or results of operations of the Borrower, the Parent or the Significant Subsidiaries of the Parent as the Administrative Agent and the Lenders may reasonably request.

(d) Compliance with Laws and Contractual Obligations.

(i) The Borrower will, and will cause the Parent and the Subsidiaries of the Parent to, comply with the requirements of all applicable laws (including the Act, ERISA and Environmental Requirements), rules, regulations and orders, the failure to comply with which would reasonably be expected to result in a Material Adverse Change. Not in limitation of the foregoing, the Borrower will, and will cause the Parent, each Significant

Subsidiary of the Parent and each other member of the Controlled Group of the foregoing to make all payments to each Plan of the Borrower, the Parent, any Significant Subsidiary of the Parent or any other member of the Controlled Group of the foregoing necessary for such Plan to not be determined to be in "at risk" status (within the meaning of Section 430 of the Code or Section 303 of ERISA).

(ii) The Borrower will, and will cause the Parent and the Significant Subsidiaries of the Parent to, comply with the requirements of all material contractual obligations (other than Debt) to which it is a party, except (A) where the necessity of such compliance currently is being contested in good faith by appropriate proceedings and reserves in conformity with, and to the extent required by, GAAP with respect thereto have been provided on the books of the Borrower, the Parent or any Significant Subsidiary of the Parent, as the case may be, or (B) where the failure to so comply would not reasonably be expected to result in a Material Adverse Change.

(e) Payment of Taxes. The Borrower will, and will cause the Parent and each Significant Subsidiary of the Parent to, pay promptly when due all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations (other than Debt) which, if unpaid, might become a Lien against the Properties of the Borrower, the Parent or such Significant Subsidiary, except (i) liabilities that are currently being contested in good faith by appropriate proceedings and reserves in conformity with, and to the extent required by, GAAP with respect thereto have been provided on the books of the Borrower, the Parent or such Significant Subsidiary, as the case may be, or (ii) where the failure to pay would not reasonably be expected to result in a Material Adverse Change.

(f) Maintenance of Insurance. The Borrower will, and will cause the Parent and each Significant Subsidiary of the Parent to, maintain with financially sound and reputable insurance companies, insurance on its Properties in at least such amounts and against at least such risks as are usually insured against in the same general area by companies of established repute engaged in the same or similar business as the Borrower, the Parent or such Significant Subsidiary of the Parent, as the case may be.

(g) Maintenance of Properties; Inspection of Property, Books and Records.

(i) Except as permitted by Section 5.02(b), the Borrower will, and will cause the Parent and the Significant Subsidiaries of the Parent to, maintain all of its Properties and assets necessary and material to its business in good condition, repair and working order, ordinary wear and tear excepted, in accordance with standards observed by companies engaged in the same or similar business and similarly situated as the Borrower, the Parent or such Subsidiaries of the Parent, as the case may be, except where the failure to so maintain its respective Properties and assets would not reasonably be expected to result in a Material Adverse Change; provided that nothing in this Section 5.01(g)(i) shall prevent the Borrower, the Parent or any Significant Subsidiary of the Parent from discontinuing the operation or maintenance of any such Properties or assets or disposing of such Properties or assets if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its business or the business of the Parent or any such Significant Subsidiary.

(ii) The Borrower will, and will cause the Parent and each Significant Subsidiary of the Parent to, (A) keep proper books of record and account in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its respective business and activities and (B) permit representatives of the Administrative Agent (and any Lender in attendance with the Administrative Agent) to visit and inspect any of its Properties at reasonable business hours upon reasonable notice, to examine and make abstracts from any of its books and records and to discuss its affairs, finances and accounts with its respective officers, employees and independent public accountants; provided that (w) excluding any such visits and inspections during the continuation of an Event of Default, the Administrative Agent shall conduct such visits and inspections at its (and the applicable Lenders') expense and not exercise such rights more often than one (1) time during any calendar year; (x) upon the occurrence and during the continuance of an Event of Default, the Administrative Agent and any Lender may do any of the foregoing at the expense of the Borrower and at any time without advance notice; (y) any such visits or inspections shall be subject to such conditions as the Borrower, the Parent and each Significant Subsidiary of the Parent, as the case may be, shall deem necessary based on reasonable considerations of safety and security; and (z) neither the Borrower, the Parent or any Significant Subsidiary of the Parent shall be required to disclose any information that is subject to the attorney-client privilege or attorney work-product privilege properly asserted by the applicable person to prevent the loss of such privilege or which is prevented from disclosure pursuant to a confidentiality agreement with third parties.

(h) Maintenance of Existence.

(i) The Borrower will, and will cause the Parent to, maintain its corporate existence except as permitted under Section 5.02(b).

(ii) The Borrower will, and will cause the Parent and each Significant Subsidiary of the Parent to maintain all rights, franchises, licenses and privileges necessary to the conduct of its business, except (x) as permitted under Section 5.02(b) and (y) where the failure to take such action would not reasonably be expected to result in a Material Adverse Change.

(i) Debt Capitalization. The Borrower will cause the Parent to maintain at the end of each Fiscal Quarter a ratio of Consolidated Total Debt to Consolidated Total Capitalization of not more than 0.70 to 1.0.

(j) Compliance with Anti-Corruption Laws and Sanctions. The Borrower and the Parent will maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, the Parent, the Subsidiaries of the Parent and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

Documents required to be delivered pursuant to Sections 5.01(a), 5.01(b) and 5.01(c) (other than Section 5.01(c)(ii)) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed in Section 7.01; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify the Administrative Agent by facsimile or electronic mail (which shall promptly provide notice to the Lenders in accordance with its customary practice) of the posting of any such documents. Notwithstanding anything contained herein, in every instance the Parent and the Borrower shall be required to provide paper copies of the compliance certificates required by Sections 5.01(a)(iii) and 5.01(b)(iii) to the Administrative Agent. Except for such compliance certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Borrower and the Parent hereby acknowledge that (a) the Administrative Agent and/or the Joint Lead Arrangers will make available to the Lenders and the LC Issuing Banks materials and/or information provided by or on behalf of the Borrower and the Parent hereunder (collectively, the "***Borrower Materials***") by posting the Borrower Materials on SyndTrak Online or another similar electronic system (the "***Platform***") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower, the Parent or their respective securities) (each, a "***Public Lender***"). The Borrower hereby agrees that if (x) the Borrower has clearly and conspicuously marked any Borrower Materials "PUBLIC", which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof or (y) the Borrower Materials have been filed with the SEC without a request of confidential treatment, (A) the Borrower shall be deemed to have authorized the Administrative Agent, the Joint Lead Arrangers, the LC Issuing Banks and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower, the Parent or their respective securities for purposes of United States Federal and state securities laws (provided that to the extent such Borrower Materials constitute Information, they shall be treated as set forth in Section 7.06); (B) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor"; and (C) the Administrative Agent and the Joint Lead Arrangers shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor". Notwithstanding the foregoing, the Borrower shall be under no obligation to mark any Borrower Materials "PUBLIC".

Section 5.02 Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower agrees as follows:

(a) Restrictions on Liens. The Borrower shall not, and shall not cause or permit the Parent or any Significant Subsidiary of the Parent to create, incur, assume or suffer to exist, any Lien on or with respect to any of its respective Property, whether now owned or hereafter acquired, except Permitted Liens.

(b) Consolidations; Mergers; Etc. Neither the Borrower nor the Parent shall consolidate or merge with or into, or sell, lease or otherwise transfer all or substantially all of its assets, taken as a whole, to any other Person; provided that (i) the Parent may consolidate or merge with another Person so long as (A) the Parent is the Person surviving or continuing after the completion of such consolidation or merger; (B) after giving effect to such consolidation or merger, the S&P Rating and the Moody's Rating of the Parent is BBB-/Baa3 or higher; and (C) immediately after giving effect to such consolidation or merger, no Default or Event of Default shall have occurred and be continuing and (ii) the Borrower may consolidate or merge with, or sell, lease or otherwise transfer all or substantially all of its assets to, the Parent so long as (A) in the case of a consolidation or merger, the Parent is the Person surviving or continuing after the completion of such consolidation or merger; (B) the Parent directly assumes all of the Borrower's obligations under the Loan Documents in accordance with documentation reasonably acceptable to the Administrative Agent; and (C) immediately after giving effect to such consolidation, merger, sale, lease or transfer, no Default or Event of Default shall have occurred and be continuing.

(c) Sale-Leaseback Transactions. The Borrower will not, and will not allow Parent or any Significant Subsidiary of the Parent to, enter into any Sale and Leaseback Transaction unless:

(i) the aggregate amount of the Attributable Debt of the Borrower, the Parent and the Significant Subsidiaries of the Parent in respect of Sale and Leaseback Transactions then outstanding would not exceed 15% of Consolidated Tangible Total Assets, or

(ii) the Borrower, the Parent or such Significant Subsidiary, within six (6) months of the applicable Sale and Leaseback Transaction, retires an amount of secured Debt which is not subordinate to the Obligations in an amount equal to the greater of (A) the net proceeds of the sale or transfer of the property or other assets that are the subject of such Sale and Leaseback Transaction or (B) the fair market value of the property leased pursuant to such Sale and Leaseback Transaction;

provided that this Section 5.02(c) shall not apply to any Sale and Leaseback Transaction which (x) is for an initial term of three (3) years or less or (y) which has a sale price of (A) $1,000,000 or less, individually or (B) $20,000,000 or less in the aggregate.

(d) Use of Proceeds.

(i) No part of the proceeds of any of the Advances or Letters of Credit will be used for any purpose which violates the provisions of the Margin Regulations. The proceeds of the Advances shall not be used for any purpose other than as specified in Section 4.07.

(ii) The Borrower will not request any Extension of Credit, and the Borrower shall not use, and shall ensure that the Parent and its Subsidiaries and its or their respective directors, officers, employees and agents shall not use, the proceeds of any Extension of Credit (x) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, (y) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, or (z) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

(e) Support Agreement. Subject to Section 7.04(viii), the Borrower shall not, and shall not cause or permit the Parent to: (i) cancel or terminate the Support Agreement or (ii) amend or otherwise modify the terms of the Support Agreement, except for amendments and modifications that do not adversely affect the rights of the Lenders hereunder, in each case, without the prior written consent of the Lenders.

(f) Change in Nature of Business. Except as permitted by Section 5.02(b), the Borrower shall not engage in any business, operations or activities (whether directly, through a joint venture, in connection with a permitted acquisition or otherwise) other than financing activities for and on behalf of the Parent and the other Subsidiaries of the Parent.

ARTICLE VI
DEFAULTS

Section 6.01 Events of Default. If one or more of the following events ("***Events of Default***") shall have occurred and be continuing:

(a) the Borrower shall fail to pay (i) any principal of any Advance or Reimbursement Obligation on the date such payment is due, or (ii) interest on any Advance or Reimbursement Obligation or any other Obligation, within five (5) Business Days of the date such payment is due; or

(b) the Borrower shall fail to observe or perform (or shall fail to cause the Parent and its Subsidiaries or Significant Subsidiaries, as applicable, to observe or perform) any covenant or agreement contained in Section 5.01(c)(i), 5.01(h)(i), 5.01(i) or 5.02; or

(c) the Borrower shall fail to observe or perform (or shall fail to cause the Parent and its Subsidiaries or Significant Subsidiaries, as applicable, to observe or perform) any covenant or agreement contained in this Agreement (other than those covered by Section 6.01(a) or 6.01(b)) and such failure shall continue for a period of thirty (30) days after the earlier of (i) the Borrower's delivery of notice thereof to the Administrative Agent and (ii) written notice thereof has been given to the Borrower by the Administrative Agent or any Lender; or

(d) any representation, warranty, certification or statement made or deemed made by the Borrower in Article IV or by the Borrower or the Parent under any other Loan Document or in any certificate, financial statement or other document delivered pursuant to this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made (or deemed made); or

(e) the Borrower, the Parent or any Significant Subsidiary of the Parent shall fail to pay any principal of or premium or interest on any Debt (excluding Debt evidenced by this Agreement and any Notes, but including, for purposes of this provision, obligations of the Parent under Section 4 of the Support Agreement) in an aggregate amount in excess of (i) $50,000,000, in the case of the Borrower, (ii) $50,000,000, in the case of the Parent or any Significant Subsidiary other than the Borrower or (iii) $100,000,000, in the aggregate, in the case of all of the Significant Subsidiaries of the Parent, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of (with the giving of notice and/or lapse of time, if required), the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; provided that if such failure, default, event or condition shall be cured by the Borrower, the Parent or such Significant Subsidiary or waived by the holders of such Debt and any acceleration of maturity having resulted from such failure, default, event or condition shall be rescinded or annulled, in each case in accordance with the terms of such agreement or instrument, without any modification of the terms of such Debt requiring the Borrower, the Parent or such Significant Subsidiary to furnish additional or other security therefor, furnish additional or other guarantees thereof, reduce the average life to maturity thereof, increase the principal amount thereof or the interest rate thereon, or any agreement by the Borrower, the Parent or such Significant Subsidiary to furnish additional or other security therefor, furnish additional or other guarantees thereof, or to issue Debt in lieu thereof which is secured by additional or other collateral or additional or other guarantees or with a shorter average life to maturity or in a greater principal amount or with a greater interest rate thereon, then any default hereunder by reason thereof shall be deemed likewise to have been thereupon cured or waived unless payment of the Advances hereunder has been accelerated prior to such cure or waiver; or

(f) the Parent shall default in the performance or observance of any obligation or condition under Section 3 of the Support Agreement as of the last day of any Fiscal Year or Fiscal Quarter of the Borrower; provided that any such default shall not be an Event of Default unless the Borrower has tangible net worth (total assets less liabilities less intangible assets as of such last day), as determined for purposes of the Support Agreement and after giving effect to period-end adjustments in accordance with GAAP, of less than negative $100,000; or

(g) the Borrower, the Parent or any Significant Subsidiary of the Parent shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally, or shall admit in writing its inability, to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against the Borrower, the Parent or any Significant Subsidiary of the Parent seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief in such case or proceeding shall be entered against the Borrower, the Parent or any such Significant Subsidiary under the federal bankruptcy laws as now or hereafter in effect; or

(i) one or more judgments or orders for the payment of money in an aggregate amount (to the extent not paid or insured) in excess of (i) $25,000,000, in the case of the Borrower, (ii) $50,000,000, in the case of the Parent or any Significant Subsidiary other than the Borrower or (iii) $100,000,000, in the aggregate, in the case of all of the Significant Subsidiaries of the Parent, shall be rendered against the Borrower, the Parent or any such Significant Subsidiary, and such judgment or order shall continue without having been discharged, vacated or stayed for a period of sixty (60) consecutive days after the entry thereof; or

(j) (i) the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Plan of the Borrower, the Parent, any Significant Subsidiary or any other member of the Controlled Group of the foregoing or any Multiemployer Plan or a proceeding shall be instituted by a fiduciary of any such Plan or Multiemployer Plan to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or (ii) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Multiemployer Plan must be terminated; or (iii) the Borrower, the Parent or any such Significant Subsidiary, or any member of the Controlled Group of the foregoing shall incur any Withdrawal Liability in the aggregate in excess of $25,000,000, with respect to one or more Multiemployer Plans; or

(k) any material provision of the Support Agreement shall become unenforceable, or any court or governmental or regulatory body having jurisdiction over the Parent, shall assert the unenforceability of any such provision in writing, or the Parent contests in any manner the validity or enforceability of any such provision; or

(l) a Parent Change of Control shall occur; or

(m) except as permitted by Section 5.02(b), the Parent shall cease to own, directly or indirectly, 100% of the Common Stock of the Borrower;

then, and in every such event, the Administrative Agent, on behalf of the Lenders, the Swing Line Banks and the LC Issuing Banks, may, with the consent of the Required Lenders (or shall at the request of the Required Lenders), by notice to the Borrower: terminate the Commitment, the Swing Line Commitment and the LC Commitment and each shall thereupon terminate and declare the Advances (together with accrued interest thereon) and the Reimbursement Obligations and all other Obligations to be, and the Advances (together with all accrued interest thereon), Reimbursement Obligations and all other Obligations shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; provided that if any Event of Default specified in Section 6.01(g) or 6.01(h) occurs with respect to the Borrower or the Parent, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, Swing Line Bank or LC Issuing Bank, the Commitment, the Swing Line Commitment and the LC Commitment shall thereupon automatically terminate and the Advances (together with accrued interest thereon) and all other Obligations shall automatically become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 6.02 Cash Collateral Account. Notwithstanding anything to the contrary contained herein, no notice given or declaration made by the Administrative Agent pursuant to Section 6.01 shall affect the obligation of any LC Issuing Bank to make any payment under any Letter of Credit in accordance with the terms of such Letter of Credit; provided that upon the occurrence and during the continuance of any Event of Default, the Administrative Agent shall at the request, or may with the consent, of the Required Lenders, upon notice to the Borrower, require the Borrower to deposit with the Administrative Agent an amount in the cash collateral account (the “Cash Collateral Account”) described below equal to 102% of the aggregate maximum amount available to be drawn under all Letters of Credit outstanding at such time. Such Cash Collateral Account shall at all times be free and clear of all rights or claims of third parties. The Cash Collateral Account shall be maintained with the Administrative Agent in the name of, and under the sole dominion and control of, the Administrative Agent, and amounts deposited in the Cash Collateral Account shall bear interest at a rate equal to the rate generally offered by the Administrative Agent for deposits equal to the amount deposited by the Borrower in the Cash Collateral Account, for a term to be determined by the Administrative Agent in its sole discretion. The Borrower hereby grants to the Administrative Agent for the benefit of the Lenders, the LC Issuing Banks and the Swing Line Banks, a Lien on, and hereby assigns to the Administrative Agent for the benefit of the Lenders, the LC Issuing Banks and the Swing Line Banks all of its right, title and interest in, the Cash Collateral Account and all funds from time to time on deposit therein to secure its reimbursement obligations in respect of Letters of Credit or repayment obligations in respect of the Swing Line Advances, as applicable. If any drawings then outstanding or thereafter made are not reimbursed in full immediately upon demand or, in the case of subsequent drawings, upon being made, then, in any such event, the Administrative Agent may, and, upon the Borrower’s request, shall, apply the amounts then on deposit in the Cash Collateral Account, in such priority as the Administrative Agent shall elect, toward the payment in full of any or all of the Borrower’s obligations hereunder as and when such obligations shall become due and payable. Upon the earlier to occur of (a) payment in full, after the termination of the Letters of Credit, of all such Obligations and (b) the date on which all Events of Default shall have been cured or waived, the Administrative Agent will repay and reassign to the Borrower any cash then on deposit in the Cash Collateral Account, and the Lien of the Administrative Agent on the Cash Collateral Account and the funds therein shall automatically terminate.

Section 6.03 Administrative Agent May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Borrower, the Administrative Agent (irrespective of whether the principal of any Advance or Letters of Credit shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Advances, Letters of Credit and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.09 and 7.03) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same in accordance with this Agreement;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 7.03.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

ARTICLE VII
MISCELLANEOUS

Section 7.01 Notices. (a) All notices, requests and other communications to any party hereunder shall be in writing (including electronic transmission or similar writing) and shall be given to such party at its address, or telecopy number or other electronic transmission set forth, in the case of the Borrower, the Parent, the Administrative Agent, the Lenders, the Swing Line Banks and the LC Issuing Banks on the signature pages hereto (including, in the case of the Borrower, the Borrower’s website) or such other address or telecopy number as such party may hereafter specify for the purpose by notice to the Borrower and the Administrative Agent. Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopy number specified as provided in this Section and the appropriate confirmation is received, (ii) if given by e-mail, when transmitted to the email address specified in this Section and a written confirmation of such communication is given by some other method specified in this Section is also given, (iii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, or (iv) if given by any other means, when delivered at the address specified as provided in this Section; provided that (x) Notices of Borrowings to the Administrative Agent and Notices of Swing Line Borrowings to the applicable Swing Line Bank under Article II shall not be effective until received and (y) notices delivered by telecopy or e-mail, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient.

(b) Notices and other communications to the Lenders and the LC Issuing Banks hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices to any Lender or LC Issuing Bank pursuant to Article II if such Lender or LC Issuing Bank, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

Section 7.02 No Waivers. No failure or delay by the Administrative Agent or any Lender in exercising any right, power or privilege hereunder or under any of the other Loan Documents shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 7.03 Expenses; Indemnification.

(a) The Borrower shall pay (i) all reasonable and documented out of pocket expenses incurred by the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers and their Affiliates (including the reasonable and documented fees and expenses of counsel for the Administrative Agent), in connection with the syndication of the credit facility evidenced by this Agreement, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents (other than the Support Agreement) or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) without duplication of any fees separately agreed to by the Borrower, all reasonable and documented out of pocket expenses incurred by any LC Issuing Bank (other than overhead expenses and other similar expenses) in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all documented out of pocket expenses incurred by the Administrative Agent, any Lender, any Swing Line Bank or any LC Issuing Bank (including the documented fees and expenses of any counsel for the Administrative Agent, any Lender, any Swing Line Bank or any LC Issuing Bank), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Advance made or Letters of Credit issued hereunder, including all such out of pocket expenses incurred during any workout, restructuring or negotiations in respect of such Advances or Letters of Credit; provided that the Borrower shall only be required to pay the fees and expenses for (x) one (1) outside counsel for the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers, the Lenders, the Swing Line Banks and the LC Issuing Banks, (y) any local and/or regulatory counsel in any applicable jurisdiction for the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers, the Lenders, the Swing Line Banks and the LC Issuing Banks and (z) in the case of a conflict of interest between one or more of the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers, the Lenders, the Swing Line Banks and the LC Issuing Banks, such additional counsel as may be reasonably necessary.

(b) The Borrower shall indemnify the Administrative Agent, each Joint Lead Arranger, each Lender, each Swing Line Bank and each LC Issuing Bank, and each Related Party of any of the foregoing Persons (each such Person being called an "***Indemnitee***") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related reasonable documented out of pocket costs and expenses (including the reasonable and documented fees and expenses of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any Person (including the Borrower or the Parent) other than such Indemnitee and its Related Parties arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Advance or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by any LC Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower, the Parent or any of its Subsidiaries, or any Environmental Proceeding or Environmental Liability related in any way to the Borrower, the Parent or any of its Subsidiaries, (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower, the Parent or any of its Subsidiaries, and regardless of whether any Indemnitee is a party thereto, or (v) any claim (including any claim arising from an Environmental Proceeding or Environmental Liability), investigation, litigation or other proceeding (whether or any Indemnitee is a party thereto) and the prosecution and defense thereof, arising out of or in any way connected with the Advances, this Agreement, any other Loan Document, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby, including reasonable and documented attorneys' fees; provided that such indemnity shall (x) not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related costs and expenses are determined by a court of competent jurisdiction by final and nonappealable judgment (1) to have resulted from the gross negligence or willful misconduct of such Indemnitee or (2) to have resulted from a claim brought by the Borrower or the Parent against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document and (y) be limited in the case of attorneys' fees and expenses to (1) one (1) outside counsel for the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers, the Lenders, the Swing Line Banks and the LC Issuing Banks, (2) any local and/or regulatory counsel in any applicable jurisdiction for the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers, the Lenders, the Swing Line Banks and the LC Issuing Banks and (3) in the case of a conflict of interest between one or more of the Administrative Agent, the Syndication Agent, the Joint Lead Arrangers, the Lenders, the Swing Line Banks and the LC Issuing Banks, such additional counsel as may be reasonably necessary. This Section 7.03(b) shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim.

(c) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under paragraph (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof), any LC Issuing Bank, any Swing Line Bank or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), such LC Issuing Bank, such Swing Line Bank or such Related Party, as the case may be, such Lender's Pro Rata Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought based on each Lender's share of the aggregate outstanding Commitments, or if there are no Commitments outstanding, the outstanding principal amount of the Advances, at such time) of such unpaid amount (including any such unpaid amount in respect of a claim asserted by such Lender); provided that with respect to such unpaid amounts owed to any LC Issuing Bank or Swing Line Bank solely in its capacity as such, only the Lenders shall be required to pay such unpaid amounts, such payment to be made severally among them based on such Lenders' Pro Rata Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought); and provided, further, that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent), such LC Issuing Bank or such Swing Line Bank in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent), such LC Issuing Bank or any such Swing Line Bank in connection with such capacity. The obligations of the Lenders under this paragraph (c) are subject to the provisions of Section 2.21(c).

(d) To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document, the transactions contemplated hereby or thereby, any Advance or Letter of Credit, or the use of the proceeds thereof. To the fullest extent permitted by applicable law, no Indemnitee shall assert, and each Indemnitee hereby waives, any claim against the Borrower, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document, the transactions contemplated hereby or thereby, any Advance or Letter of Credit, or the use of the proceeds thereof; provided that this waiver shall in no way limit the Borrower's indemnification obligations in Section 7.03(b) to the extent of any claim by any Person other than the Borrower, the Parent or any Indemnitee or its Related Parties for any of the foregoing to the extent such claim would be covered by Section 7.03(b).

Section 7.04 Amendments, Waivers and Consents.

(a) Neither this Agreement nor any other Loan Document (other than the Support Agreement (except as provided in clause (viii) below)) nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing and signed by the Required Lenders, the Borrower and the Parent; provided that no such amendment, change, waiver, discharge or termination shall without the consent of each Lender affected thereby:

(i) extend the final maturity of any Advance, or any portion thereof (except pursuant to Section 2.06),

(ii) reduce the rate or extend the time of payment of interest (other than a waiver or rescission of the application of the default rate of interest) or fees hereunder;

(iii) reduce or waive repayment of the principal amount of any Advance,

(iv) extend the Commitment of a Lender or increase the Commitment of a Lender over the amount thereof in effect (it being understood and agreed that none of (A) a waiver of any Default or Event of Default, (B) the extension of the Commitment of any other Lender in accordance with Section 2.06 or (C) the increase of the Commitment of any other Lender in accordance with Section 2.05, shall, in any case, constitute a change in the terms of the Commitment of such Lender),

(v) release the Borrower from all its obligations under the Loan Documents except as permitted hereby,

(vi) reduce any percentage specified in, or otherwise modify, the definition of “Required Lenders”,

(vii) consent to the assignment or transfer by the Borrower of any of its respective rights and obligations under (or in respect of) the Loan Documents except as permitted hereby or thereby,

(viii) (x) terminate or otherwise cancel the Support Agreement or (y) amend or otherwise modify the terms of the Support Agreement in any manner that, in the case of this clause (y), adversely affects the rights of such Lender, or

(ix) amend or otherwise modify this Section 7.04.

Notwithstanding anything to the contrary herein, (i) no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder (and any amendment, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender may be effected with the consent of the applicable Lenders other than Defaulting Lenders), except that (x) the Commitment of any Defaulting Lender may not be increased or extended without the consent of such Lender and (y) any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender more adversely than other affected Lenders shall require the consent of such Defaulting Lender; (ii) no amendment, waiver or consent shall, unless in writing and signed by the LC Issuing Banks in addition to the Lenders required above, affect the rights or duties of the LC Issuing Banks under this Agreement or any Letter of Credit issued or to be issued by it; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Banks in addition to the Lenders required above, affect the rights or duties of the Swing Line Banks under this Agreement; (iv) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (v) each Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto.

(b) In connection with any proposed amendment, change or waiver (a "***Proposed Change***") requiring the consent of all Lenders or all affected Lenders, if the consent of the Required Lenders to such Proposed Change is obtained, but the consent to such Proposed Change of other Lenders whose consent is required is not obtained (any such Lender whose consent is not obtained as described in paragraph (a) above being referred to as a "***Non-Consenting Lender***"), then, so long as the Lender that is acting as Administrative Agent is not a Non-Consenting Lender, the Borrower may, at its sole expense and effort, upon notice to such Non-Consenting Lender and the Administrative Agent, require such Non-Consenting Lender to assign and delegate (or to execute a Power of Attorney to the Administrative Agent for the Administrative Agent to assign and delegate on such Non-Consenting Lender's behalf) without recourse (in accordance with and subject to the restrictions contained in Section 7.05), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and any relevant Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Non-Consenting Lender shall have received payment of an amount equal to the outstanding principal of its Advances and participations in Letter of Credit payments that have not been reimbursed, accrued interest thereon, accrued fees and all other amounts payable to it hereunder from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) the Borrower or such assignee shall have paid to the Administrative Agent the processing and recordation fee specified in Section 7.05(b)(iv). Notwithstanding anything to the contrary in this Agreement, the return of the Note held by any such Non-Consenting Lender is not a condition to the effectiveness of any assignment pursuant to this Section 7.04(b).

Section 7.05 Benefit of Agreement.

(a) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided that, except as permitted by Section 5.02(b), the Borrower may not assign or transfer any of its interests and obligations without prior written consent of each of the Lenders; and provided further that the rights of each Lender to transfer, assign or grant participations in its rights and/or obligations hereunder shall be limited as set forth in this Section 7.05.

(b) Each Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Advances, its Notes, and its Commitment); provided that:

(i) each such assignment shall be to an Eligible Assignee;

(ii) except in the case of an assignment to another Lender, an Affiliate of an existing Lender or any Approved Fund or an assignment of all of a Lender's rights and obligations under this Agreement, any such partial assignment shall be in an amount at least equal to $10,000,000 (or, if less, the remaining amount of the Commitment being assigned by such Lender) or an integral multiple of $1,000,000 in excess thereof;

(iii) each such assignment by a Lender of any portion of its Advances shall be accompanied by an assignment of a constant, and not varying, percentage of all of such Advances, and each such assignment by a Lender of any portion of its Advances shall be accompanied by an assignment of a constant, and not varying, percentage of all of such Lender's Advances;

(iv) the parties to such assignment shall execute and deliver to the Administrative Agent for its acceptance an Assignment and Acceptance, together with any Note subject to such assignment and a processing fee of $3,500;

(v) except for any (A) Swing Line Bank which is a Lender being replaced pursuant to Section 2.23(b), and (B) any LC Issuing Bank which (1) is a Lender being replaced pursuant to Section 2.23(b) and (2) has no Letters of Credit issued by it on such date of replacement, the consents of each LC Issuing Bank and Swing Line Bank (such consent not to be unreasonably withheld or delayed) shall be required for any assignment; and

(vi) in connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the Pro Rata Share previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent, each LC Issuing Bank, each Swing Line Bank and each other Lender hereunder (and interest accrued thereon), and (y) acquire (and fund as appropriate) its full Pro Rata Share and participations in Letters of Credit and Swing Line Advances in accordance with its Pro Rata Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Upon execution, delivery, and acceptance of such Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, rights, and benefits of a Lender hereunder and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement; provided, that except to the extent otherwise expressly agreed by the affected parties, no assignment by a Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender. Upon the consummation of any assignment pursuant to this Section 7.05, the assignor, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required, new Notes are issued to the assignor and the assignee. Each assignee shall deliver to the Borrower and the Administrative Agent certification as to an exemption from or reduction of withholding of Taxes in accordance with Section 2.17(g). To the extent that an assignment of all or any portion of a Lender's Commitment pursuant to this Section 7.05 would, at the time of such assignment, result in increased costs under Section 2.16 or 2.17 from those being charged by the respective assigning Lender prior to such assignment, then the Borrower shall not be obligated to pay such increased costs (although the Borrower shall be obligated to pay any other increased costs of the type described above resulting from changes after the date of the respective assignment).

(c) The Administrative Agent shall maintain at its address referred to in Section 7.01 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "***Register***"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice. Any assignment of any Advance or other obligations shall be effective only upon an entry with respect thereto being made in the Register.

(d) Upon its receipt of an Assignment and Acceptance executed by the parties thereto, together with any Note subject to such assignment and payment of the processing fee, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the parties thereto.

(e) Each Lender may sell participations to one or more Persons (other than a natural Person, or a holding company, investment vehicle or trust for, or owned and operated for the primary benefit of, a natural Person, or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each a "***Participant***") in all or a portion of its rights, obligations or rights and obligations under this Agreement (including all or a portion of its Commitment or its Advances); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, and (iii) the Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower hereunder owing to such Lender and to approve any amendment, modification, or waiver of any provision of this Agreement (other than amendments, modifications, or waivers decreasing the amount of principal of or the rate at which interest is payable on such Advances or Notes, extending any scheduled principal payment date or date fixed for the payment of interest on such Advances or Notes, or extending its Commitment). The Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.13, 2.16 and 2.17 (subject to the requirements and limitations therein, including the requirements under Section 2.17(g) (it being understood that the documentation required under Section 2.17(g) shall be delivered to the participating Lender)) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section; provided that such Participant (A) agrees to be subject to the provisions of Section 2.23 as if it were an assignee under paragraph (b) of this Section; and (B) shall not be entitled to receive any greater payment under Section 2.13, 2.16 or 2.17, with respect to any participation, than its participating Lender would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Change in Law that occurs after the Participant acquired the applicable participation. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Advances or other obligations under the Loan Documents (the "***Participant Register***"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.13, 2.16 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent.

(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority for such Lender; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(h) Any Lender may furnish any information concerning the Borrower in the possession of such Lender from time to time to assignees and participants (including prospective assignees and Participants), subject, however, to the provisions of Section 7.06.

(i) Notwithstanding anything to the contrary contained in this Agreement, any Lender may exchange, continue or rollover all or a portion of its Advances in connection with any refinancing, extension, loan modification or similar transaction permitted by the terms of this Agreement, pursuant to a cashless settlement mechanism approved by the Borrower, the Administrative Agent and such Lender.

Section 7.06 Confidentiality. Each of the Administrative Agent, the Lenders, the Swing Line Banks and the LC Issuing Banks agree to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its Related

Parties (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed and required to keep such Information confidential and not to use such Information except in connection with the transactions contemplated by the Loan Documents, and it being further understood that each of the Administrative Agent, the Lenders, the Swing Line Banks and the LC Issuing Banks will be responsible for any disclosure or use of such Information by its Affiliates and its employees, officers and directors in a manner not permitted by this Section); (b) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners); provided that except in connection with any routine bank examination of the Administrative Agent, such Lender, such Swing Line Bank or such LC Issuing Bank, such Person or Related Party shall (to the extent permitted by any regulatory authority), at the expense of the Borrower, provide the Borrower and the Parent with prompt (and to the extent practicable, prior) notice of such requested disclosure so that the Borrower or Parent may seek a protective order or other appropriate remedy and, in any event, such Person or Related Party shall provide only that portion of such Information that in the reasonable judgment of such Person or Related Party, as the case may be, is relevant, advisable or legally required to be provided, to the extent practicable; (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; provided that the Administrative Agent, such Lender, such Swing Line Bank or such LC Issuing Bank, as applicable, shall (to the extent legally permitted to do so), at the expense of the Borrower, provide the Borrower and the Parent with prompt (and to the extent practicable, prior) notice of such requested disclosure so that the Borrower or Parent may seek a protective order or other appropriate remedy and, in any event, the Administrative Agent, such Lender, such LC Issuing Bank or such LC Issuing Bank shall provide only that portion of such Information that in the reasonable judgment of such Person is relevant, advisable or legally required to be provided, to the extent practicable; (d) to any other party hereto; (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder; (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights and obligations under this Agreement; (g) on a confidential basis to (i) any rating agency in connection with rating the Borrower or this Agreement or (ii) the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to this Agreement; (h) with the consent of the Borrower; or (i) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section, or (y) becomes available to the Administrative Agent, any Lender, any LC Issuing Bank or any of their respective Affiliates on a nonconfidential basis from a source other than any Borrower Party (as defined below) that is not known by the Administrative Agent, such Lender, such Swing Line Bank, such LC Issuing Bank or such Affiliate to be prohibited from disclosing such information to it by a contractual, legal or fiduciary obligation to the Borrower, the Parent or any of their respective Subsidiaries or Affiliates. For purposes of this Section, ***"Information"*** means all information received from any Borrower Party relating to the Borrower, the Parent or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any LC Issuing Bank on a nonconfidential basis prior to disclosure by any Borrower Party. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. For purposes of this Section, "***Borrower Party***" means the Borrower, the Parent or any Subsidiary, Affiliate, attorney, accountant, auditor, advisor or agent of the Borrower or the Parent.

Section 7.07 Representation by Lender. Each Lender hereby represents that it is a commercial lender or financial institution which makes loans in the ordinary course of its business and that it will make its Advances hereunder for its own account in the ordinary course of such business; provided that, subject to Sections 2.23 and 7.05, the disposition of the Advances owed to such Lender and the Notes held by such Lender shall at all times be within its exclusive control.

Section 7.08 Governing Law. This Agreement and the Notes shall be construed in accordance with and governed by the law of the State of New York.

Section 7.09 Consent to Jurisdiction; Waiver of Jury Trial.

(a) Submission to Jurisdiction. Each of the parties hereto irrevocably and unconditionally agrees that any action, litigation or proceeding of any kind or description, whether in law or equity, whether in contract or in tort or otherwise, against any other party hereto or any Related Party of such Person in any way relating to this Agreement or any other Loan Document or the transactions relating hereto or thereto, may be brought and maintained in the courts of the State of New York sitting in New York County, and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, and each of the parties hereto irrevocably and unconditionally submits to the non-exclusive jurisdiction of such courts and agrees that all claims in respect of any such action, litigation or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such federal court. Nothing in this Agreement or in any other Loan Document shall affect any right that the Administrative Agent, any Lender, any LC Issuing Bank or any Swing Line Bank may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document in the courts of any other jurisdiction.

(b) Waiver of Venue. Each party hereto irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (a) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Service of Process. Each party hereto irrevocably consents to service of process effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the address provided for notices in Section 7.01. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by applicable law.

(d) Waiver of Jury Trial. THE ADMINISTRATIVE AGENT, THE LENDERS, THE SWING LINE BANKS, THE LC ISSUING BANKS AND THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT AND ANY OTHER LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF THE ADMINISTRATIVE AGENT, THE LENDERS, THE SWING LINE BANKS, THE LC ISSUING BANKS, THE BORROWER OR THE PARENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE ADMINISTRATIVE AGENT, THE LENDERS, THE SWING LINE BANKS AND THE LC ISSUING BANKS ENTERING INTO THIS AGREEMENT.

Section 7.10 Interpretation. No provision of this Agreement or any other Loan Document shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

Section 7.11 Counterparts; Effectiveness; Electronic Execution.

(a) Counterparts; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or in electronic (i.e., “pdf” or “tif”) format shall be effective as delivery of a manually executed counterpart of this Agreement.

(b) Electronic Execution of Assignments. The words “execution”, “signed”, “signature” and words of like import in any Assignment and Acceptance shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

Section 7.12 Entire Agreement. This Agreement and the other Loan Documents embody the entire agreement and understanding between the parties hereto and thereto in respect of the transactions contemplated hereby and thereby and supersede all prior negotiations, understandings and agreements between such parties or any of them in respect of such transactions.

Section 7.13 USA PATRIOT Act. The Administrative Agent and each Lender hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower and the Parent, which information includes the name and address of the Borrower and the Parent and other information that will allow such Lender to identify the Borrower and the Parent in accordance with the Act.

Section 7.14 Reaffirmation. This Agreement constitutes an amendment and restatement of the Existing Credit Agreement. Each of the parties hereto acknowledges and agrees that the Obligations represent, among other things, the amendment, restatement, renewal, extension, consolidation and modification of the Obligations (as defined in the Existing Credit Agreement) of the Borrower under the Existing Credit Agreement. Each of the parties hereto further acknowledges and agrees that this Agreement supercedes and replaces the Existing Credit Agreement but does not extinguish the Obligations (as defined in the Existing Credit Agreement) thereunder and that by entering into and performing its Obligations hereunder, this transaction shall not constitute a novation.

ARTICLE VIII
AGENCY PROVISIONS

Section 8.01 Appointment. Each Lender, Swing Line Bank and LC Issuing Bank hereby designates and appoints Wells Fargo, as Administrative Agent of such Person to act as specified herein and the other Loan Documents, and each such Lender, Swing Line Bank and LC Issuing Bank hereby authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated by the terms hereof and of the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere herein and in the other Loan Documents, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein and therein, or any fiduciary relationship with any Lender, Swing Line Bank or LC Issuing Bank and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any of the other Loan Documents, or shall otherwise exist against the Administrative Agent. The provisions of this Section are solely for the benefit of the Administrative Agent, the Lenders, the Swing Line Banks and the LC Issuing Banks and neither the Borrower nor the Parent shall have any rights as a third party beneficiary of the provisions hereof. In performing its functions and duties under this Agreement and the other Loan Documents, the Administrative Agent shall act solely as Administrative Agent of the Lenders, the Swing Line Banks and the LC Issuing Banks and, does not assume and shall not be deemed to have assumed any obligation or relationship of agency or trust with or for the Borrower, the Parent or any of their respective Affiliates.

Section 8.02 Delegation of Duties. The Administrative Agent may execute any of its duties hereunder or under the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

Section 8.03 Exculpatory Provisions. The Administrative Agent and its officers, directors, employees, agents, attorneys-in-fact or affiliates shall not be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection herewith or in connection with any of the other Loan Documents (except for its or such Person’s own gross negligence or willful misconduct), or (ii) responsible in any manner to any of the Lenders, the Swing Line Banks or the LC Issuing Banks for any recitals, statements, representations or warranties made by the Borrower or the Parent contained herein or in any of the other Loan Documents or in any certificate, report, document, financial statement or other written or oral statement referred to or provided for in, or received by the Administrative Agent under or in connection herewith or in connection with the other Loan Documents, or enforceability or sufficiency therefor of any of the other Loan Documents, or for any failure of the Borrower or the Parent to perform its obligations hereunder or thereunder. The Administrative Agent shall not be responsible to any Lender, Swing Line Bank or LC Issuing Bank for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement, or any of the other Loan Documents or for any representations, warranties, recitals or statements made herein or therein or made by the Borrower or the Parent in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders, the Swing Line Banks or the LC Issuing Banks or by or on behalf of the Borrower or the Parent to the Administrative Agent, any Lender, any Swing Line Bank or any LC Issuing Bank or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Advances or of the existence or possible existence of any Default or Event of Default or to inspect the properties, books or records of the Borrower, the Parent or any of their respective Affiliates.

Section 8.04 Reliance on Communications. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, statement, order or other document or conversation believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including counsel to the Borrower, independent accountants and other experts selected by the Administrative Agent with reasonable care). The Administrative Agent may deem and treat the Lenders, the Swing Line Banks and the LC Issuing Banks as the owner of their respective interests hereunder for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent in accordance with Section 7.05. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or under any of the other Loan Documents unless it shall first receive such advice or concurrence of the Required Lenders (or such other number or percentage of the Lenders, Swing Line Banks or LC Issuing Banks as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 6.01, 6.02 and 7.04) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders, the Swing Line Banks and/or the LC Issuing Banks, as applicable, against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or under any of the other Loan Documents in accordance with a request of the Required Lenders (or to the extent specifically provided in Section 7.04, all the Lenders, all affected Lenders, all Swing Line Banks or all LC Issuing Banks, as applicable) and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders, the Swing Line Banks and the LC Issuing Banks, as applicable (including their respective successors and assigns).

Section 8.05 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Lender, a Swing Line Bank, an LC Issuing Bank, the Borrower or the Parent referring to the Loan Document, describing such Default or Event of Default and stating that such notice is a “notice of default”. In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders, the Swing Line Banks and the LC Issuing Banks. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders.

Section 8.06 Non-Reliance on Administrative Agent and Other Lenders. Each Lender, Swing Line Bank and LC Issuing Bank expressly acknowledges that each of the Administrative Agent and its officers, directors, employees, agents, attorneys-in-fact or Affiliates has not made any representations or warranties to it and that no act by the Administrative Agent or any Affiliate thereof hereinafter taken, including any review of the affairs of the Borrower, the Parent or any of their respective Affiliates, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender, Swing Line Bank or LC Issuing Bank. Each Lender, Swing Line Bank and LC Issuing Bank represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, Swing Line Bank or LC Issuing Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other conditions, prospects and creditworthiness of the Borrower, the Parent or their respective Affiliates and made its own decision to make its Advances hereunder and enter into this Agreement. Each Lender, Swing Line Bank and LC Issuing Bank also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, Swing Line Bank or LC Issuing Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other conditions, prospects and creditworthiness of the Borrower, the Parent and their respective Affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders, the Swing Line Banks and the LC Issuing Banks by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender, Swing Line Bank or LC Issuing Bank with any credit or other information concerning the business, operations, assets, property, financial or other conditions, prospects or creditworthiness of the Borrower, the Parent or their respective Affiliates which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07 Administrative Agent in its Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower, the Parent, their respective Subsidiaries or their respective Affiliates as though the Administrative Agent were not the Administrative Agent hereunder. With respect to the Advances and all obligations of the Borrower and the Parent hereunder and under the other Loan Documents, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender, any Swing Line Bank and any LC Issuing Bank, in such capacity, and may exercise the same as though it were not the Administrative Agent, and the terms "Lender", "Lenders", "Swing Line Bank", "Swing Line Banks", "LC Issuing Bank" and "LC Issuing Banks" shall include the Administrative Agent in its individual capacity, as applicable.

Section 8.08 Successor Agent.

(a) The Administrative Agent may resign at any time by giving written notice thereof to the Lenders, the Swing Line Banks, the LC Issuing Banks and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent. Such successor shall be subject to the approval of the Borrower, such approval not to be unreasonably withheld or delayed; provided that such approval shall not be necessary if at the time such successor is appointed there shall have occurred and be continuing an Event of Default described in Section 6.01(a), 6.01(g) or 6.01(h). If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation (or such earlier day as shall be agreed by the Required Lenders) (the "Resignation Effective Date"), then the retiring Administrative Agent may, (but shall not be obligated to), on behalf of the Lenders, the Swing Line Banks and the LC Issuing Banks, appoint a successor Administrative Agent, which shall be a Lender or shall be another commercial bank or trust company organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000. Such successor shall be subject to the approval of the Borrower, such approval not to be unreasonably withheld or delayed; provided that such approval shall not be necessary if at the time such successor is appointed there shall have occurred and be continuing an Event of Default described in Section 6.01(a), 6.01(g) or 6.01(h). Whether or not a successor has been appointed, such resignation shall become effective in accordance with such notice on the Resignation Effective Date.

(b) If the Person serving as Administrative Agent (x) is a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders may, to the extent permitted by applicable law, by notice in writing to the Borrower and such Person, or (y) no longer has any Commitment as a Lender, the Borrower may, to the extent permitted by applicable law, by notice in writing to the Lenders and such Person, remove such Person as Administrative Agent. In connection with such removal, the Required Lenders shall appoint a successor Administrative Agent, subject to the approval of the Borrower, such approval not to be unreasonably withheld or delayed; provided that such approval shall not be necessary if at the time such successor is appointed there shall have occurred and be continuing an Event of Default described in Section 6.01(a), 6.01(g) or 6.01(h). If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after its removal (or such earlier day as shall be agreed by the Required Lenders (in the case of a removal pursuant to clause (x) of this Section 8.08(b)) or the Borrower (in the case of a removal pursuant to clause (y) of this Section 8.08(b))) (the "Removal Effective Date"), then such removal shall nonetheless become effective in accordance with such notice on the Removal Effective Date.

(c) Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent, shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent's resignation or removal as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. In the event that no successor has been appointed on the Resignation Effective Date or Removal Effective Date, as applicable, any Cash Collateral held by the retiring Administrative Agent shall continue to be held by such Person, for the benefit of the Lenders, the Swing Line Banks and the LC Issuing Banks, as applicable, until a successor Administrative Agent has been appointed hereunder.

(d) Any resignation by or removal of Wells Fargo as Administrative Agent pursuant to this Section shall also constitute its resignation as an LC Issuing Bank and Swing Line Bank. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, (i) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of Wells Fargo as the retiring LC Issuing Bank and Swing Line Bank, (ii) the retiring LC Issuing Bank and Swing Line Bank shall be discharged from all of their respective duties and obligations hereunder or under the other Loan Documents, and (iii) the Borrower shall (at the expense of (x) the retiring Administrative Agent, in the case of a resignation by the Administrative Agent and (y) the Borrower in the case of a removal of the Administrative Agent) (A) use commercially reasonable efforts to cause an LC Issuing Bank to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or (B) make other arrangements satisfactory to the retiring LC Issuing Bank to cause the obligations of the retiring LC Issuing Bank with respect to such Letters of Credit to be Cash Collateralized.

Section 8.09 Other Agents. No Joint Lead Arranger nor any Lender identified as an "Agent" (other than the Administrative Agent) shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of any such Person which is also a Lender, Swing Line Bank or LC Issuing Bank, those applicable to all Lenders, Swing Line Banks or LC Issuing Banks, as applicable, as such. Without limiting the foregoing, none of the Lenders so identified shall have or be deemed to have any fiduciary relationship with any other Lender, Swing Line Bank or LC Issuing Bank. Each Lender, Swing Line Bank and LC Issuing Bank acknowledges that it has not relied, and will not rely, on any of the Lenders so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE IX
ACKNOWLEDGEMENT

Section 9.01 Parent Acknowledgment. The Parent hereby acknowledges that (a) Obligations owing by the Borrower under this Agreement will constitute "Debt" under the Support Agreement and (b) this Agreement contains representations and warranties and covenants that relate to the Parent and that a breach of any of those representations or warranties, or a failure by the Borrower to comply with such covenants, could result in an Event of Default under this Agreement. Notwithstanding the acknowledgement contained in this Section 9.01, each of the Administrative Agent, each LC Issuing Bank, each Swing Line Bank and each Lender acknowledges and agrees that it will have no recourse against the Parent under this Agreement, and the rights and remedies of the Administrative Agent, each LC Issuing Bank, each Swing Line Bank and each Lender against Parent shall be solely pursuant to and in accordance with the Support Agreement.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

AMERICAN WATER CAPITAL CORP.

By: /s/ Deborah A. Degillio
Name: Deborah A. Degillio
Title: VP & Treasurer

Address for Notices:

131 Woodcrest Road
Cherry Hill, NJ 08003
Attention: Susan Lee
Facsimile No.: (856) 566-4004
e-mail: susan.lee@amwater.com
website: www.amwater.com

PARENT:

Acknowledged and agreed solely as to Section 9.01 of the Credit Agreement.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ Deborah A. Degillio
Name: Deborah A. Degillio
Title: VP & Treasurer

Address for Notices:

131 Woodcrest Road
Cherry Hill, NJ 08003
Attention: Susan Lee
Facsimile No.: (856) 566-4004
e-mail: susan.lee@amwater.com

ADMINISTRATIVE AGENT AND LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, an LC Issuing Bank, a Swing Line Bank and a Lender

By: /s/ Frederick W. Price
Name: Frederick W. Price
Title: Managing Director

Address for Notices:

For Loan Operations Notices:

MAC D1109-019
1525 West W.T. Harris Blvd.
Charlotte, NC 28262
Attention: Syndication Agency Services
Facsimile No.: (704) 715-0017
e-mail: agencyservices.requests@wellsfargo.com

For Credit Notices:

MAC: D1053-115
301 South College Street, 11th Floor
Charlotte, NC 28288
Attention: Rick Price
Facsimile No.: (704) 410-0331
e-mail: rick.price@wellsfargo.com

JPMORGAN CHASE BANK, N.A., as an LC Issuing Bank, a Swing Line Bank and a Lender

By: /s/ Nancy R. Barwig
Name: Nancy R. Barwig
Title: Credit Executive

Address for Notices:

For Loan Operation Notices:

10 South Dearborn, Floor L2
Chicago, IL 60603-2300
Attention: April Yebd
Facsimile No.: (888) 292-9533
e-mail: april.yebd@jpmorgan.com

For Credit Notices:

10 South Dearborn, Floor 09
Chicago, IL 60603-2300
Attention: Nancy R. Barwig
Facsimile No.: (312) 732-1762
e-mail: nancy.r.barwig@jpmorgan.com

MIZUHO BANK, LTD., as an LC Issuing Bank and a Lender

By: /s/ Leon Mo
Name: Leon Mo
Title: Authorized Signatory

Address for Notices:

1251 Avenue of the Americas
New York, NY 10020
Attention: Raymond Ventura
Facsimile No.: (212) 282-4488

PNC BANK, NATIONAL ASSOCIATION, as an LC Issuing Bank and a Lender

By: /s/ Domenic D’Ginto
Domenic D’Ginto, CFA
Senior Vice President

Address for Notices:

For Loan Operation Notices:

Attention: Dana Brackins
Facsimile No.: (877) 733-1196
e-mail: Dana.Brackins@pnc.com

For Credit Notices:

1000 Westlakes Drive
Berwyn, PA 19312
Attention: Domenic D’Ginto
Facsimile No.: 610 725 5799

BANK OF AMERICA, N.A. , as a Lender

By: /s/ Sean J. Slattery
Name: Sean J. Slattery
Title: Senior Vice President

Address for Notices:

750 Walnut Avenue
Cranford, NJ 07016
Attention: Sean J. Slattery
Facsimile No.: 908.709.5476

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD. , as a Lender

By: /s/ Paul Farrell
Name: Paul Farrell
Title: Managing Director

Address for Notices:

1251 Avenue of the Americas
New York, NY 10020-1104
Attention: Dolores Ruland
Facsimile No.: (201) 521-2304
(201) 521-2305

REGIONS BANK, as a Lender

By: /s/ James A. Sharp
Name: James A. Sharp
Title: Vice President

Address for Notices:

1045 Providence Road, Suite 200
Charlotte, NC 28207
Attention: Dion Barrett
Facsimile No.: (704) 338-1034

ROYAL BANK OF CANADA, as a Lender

By: /s/ Frank Lambrinos
Name: Frank Lambrinos
Title: Authorized Signatory

Address for Notices:

Three World Financial Center
New York, NY 10281
Attention: Rahul Shah
Facsimile No.: 212-428-6201

SANTANDER BANK, N.A. , as a Lender

By: /s/ Daniel Vilarelle
Daniel Vilarelle
Vice President

Address for Notices:

1500 Market Street
Philadelphia, PA 19102
Attention: Frank Phillips
Facsimile No.: (215) 568-9587

TD BANK, N.A. , as a Lender

By: /s/ Betty Chang
Name: Betty Chang
Title: Senior Vice President

Address for Notices:

444 Madison Ave., 2nd Floor
New York, NY 10022
Attention: Betty Chang
Facsimile No.: (212) 308-0486

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ James P. O’Shaughnessy
Name: James P. O’Shaughnessy
Title: Vice President

Address for Notices:

461 Fifth Avenue, 7th Floor
New York, NY 10017
Attention: James P. O’Shaughnessy
Facsimile No.: (646) 935-4533

BRANCH BANKING AND TRUST COMPANY, as a Lender

By: /s/ Matthew J. Davis
Name: Matthew J. Davis
Title: Vice President

Address for Notices:

1133 Avenue of the Americas
New York, NY 10036
Attention: Timothy J. Wiegand
Facsimile No.: (703) 442-5544

COBANK, ACB, as a Lender

By: /s/ Bryan Ervin
Name: Bryan Ervin
Title: Vice President

Address for Notices:

5500 South Quebec Street
Greenwood Village, CO 80111
Attention: Louise Derengowski
Facsimile No.: (303) 740-4002

THE BANK OF NEW YORK MELLON, as a Lender

By: /s/ Richard K. Fronapfel, Jr.
Name: Richard K. Fronapfel, Jr.
Title: Vice President

Address for Notices:

One Wall Street – 19th Floor
New York, NY 10026
Attention: Richard K Fronapfel, Jr.
Facsimile No.: (212) 635-859

BANK OF COMMUNICATIONS CO., LTD., NEW YORK BRANCH, as a Lender

By: /s/ Shelley He
Name: Shelley He
Title: Deputy General Manager

Address for Notices:

One Exchange Plaza / 55 Broadway, 31st Floor
New York, NY 10006
Attention: Han Li
Facsimile No.: (212) 376-8089

THE CHIBA BANK, LTD., NEW YORK BRANCH, as a Lender

By: /s/ Nobukazu Odaka
Name: Nobukazu Odaka
Title: General Manager

Address for Notices:

1133 Avenue of the Americas, 15th Floor
New York, NY 10036
Attention: Carmen A. Augustino
Facsimile No.: (212) 354-8575

SCHEDULE I

LENDERS AND COMMITMENTS

LENDER	COMMITMENT	PRO RATA PERCENTAGE
Wells Fargo Bank, National Association	$ 110,000,000	8.80%
JPMorgan Chase Bank, N.A.	110,000,000	8.80%
Mizuho Bank, Ltd.	110,000,000	8.80%
PNC Bank, National Association	110,000,000	8.80%
Bank of America, N.A.	90,000,000	7.20%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	90,000,000	7.20%
Regions Bank	90,000,000	7.20%
Royal Bank of Canada	90,000,000	7.20%
Santander Bank, N.A.	90,000,000	7.20%
TD Bank, N.A.	90,000,000	7.20%
U.S. Bank National Association	90,000,000	7.20%
Branch Banking and Trust Company	50,000,000	4.00%
CoBank, ACB	50,000,000	4.00%
The Bank of New York Mellon	50,000,000	4.00%
Bank of Communications Co., Ltd., New York Branch	20,000,000	1.60%
The Chiba Bank, Ltd., New York Branch	10,000,000	0.80%
AGGREGATE COMMITMENT	$ 1,250,000,000	100.00%

SCHEDULE II

SIGNIFCANT SUBSIDIARIES

New Jersey-American Water Company, Inc.

Pennsylvania-American Water Company

Missouri-American Water Company

American Water Capital Corp.

SCHEDULE 2.03

SWING LINE BANKS AND SWING LINE COMMITMENTS

SWING LINE BANK	**SWING LINE COMMITMENT**
Wells Fargo Bank, National Association	$ 50,000,000.00
JPMorgan Chase Bank, N.A.	$ 50,000,000.00
AGGREGATE SWING LINE COMMITMENT	$ 100,000,000.00

SCHEDULE 2.04

LC ISSUING BANKS AND LC COMMITMENTS

LC ISSUING BANK	LC COMMITMENT
Wells Fargo Bank, National Association	$ 37,500,000.00
JPMorgan Chase Bank, N.A.	$ 37,500,000.00
Mizuho Bank, Ltd.	$ 37,500,000.00
PNC Bank, National Association	$ 37,500,000.00
AGGREGATE LC COMMITMENT	$ 150,000,000.00

SCHEDULE 2.04(j)

EXISTING LETTERS OF CREDIT

LC Issuing Bank	Letter of Credit Number	Beneficiary	Expiration Date	Undrawn Stated Amount as of Closing Date
JPMorgan Chase Bank, N.A.	S-210245	CITY OF WATERBURY,BUREAU OF WATER	12/31/15	$ 500,000.00
JPMorgan Chase Bank, N.A.	S-241999	VIRGINIA SURETY COMPANY	12/3/15	$ 325,000.00
JPMorgan Chase Bank, N.A.	S-266999	JPMORGAN CHASE BANK, N.A.	12/3/15	$ 964,242.67
JPMorgan Chase Bank, N.A.	S-267005	WILL COUNTY DEPARTMENT OF HIGHWAYS C/O WILL COUNTY ENGINEER	12/6/15	$ 15,000.00
JPMorgan Chase Bank, N.A.	S-628494	CITY OF PHOENIX, ARIZONA FINANCE DEPARTMENT	8/11/15	$ 5,000,000.00
JPMorgan Chase Bank, N.A.	S-643674	CITY OF CHAMPAIGN	7/5/15	$ 40,000.00
JPMorgan Chase Bank, N.A.	S-643679	CITY OF URBANA	7/5/15	$ 20,000.00
JPMorgan Chase Bank, N.A.	S-724363	TOWNSHIP OF LEHMAN	11/11/15	$ 3,254,616.52
JPMorgan Chase Bank, N.A.	S-724366	PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION,	6/5/16	$ 22,026.00
JPMorgan Chase Bank, N.A.	S-806962	WEST VIRGINIA MUNICIPAL BOND COMMISSION, ATTN: SARA BOARDMAN	1/28/16	$ 192,504.00

LC Issuing Bank	Letter of Credit Number	Beneficiary	Expiration Date	Undrawn Stated Amount as of Closing Date
JPMorgan Chase Bank, N.A.	S-825292	D.L. PETERSON TRUST AND/OR ELEMENT VEHICLE MANAGEMENT SERVICES	3/18/16	$ 500,000.00
JPMorgan Chase Bank, N.A.	S-881433	WEST VIRGINIA MUNICIPAL BOND COMMISSION, ATTN: SARA BOARDMAN	10/14/15	$ 55,180.00
JPMorgan Chase Bank, N.A.	S-896267	COMMISSIONER OF INSURANCE STATE OF DELAWARE	6/5/16	$ 3,000,000
JPMorgan Chase Bank, N.A.	S-917531	WEST VIRGINIA MUNICIPAL BOND COMMISSION, ATTN: SARA BOARDMAN	4/11/16	$ 45,936.00
JPMorgan Chase Bank, N.A.	S-966354	WEST VIRGINIA MUNICIPAL BOND COMMISSION, ATTN: SARA BOARDMAN	9/8/15	$ 178,952.00
JPMorgan Chase Bank, N.A.	T-222566	FULTON COUNTY BOARD OF COMMISSIONERS	3/1/16	$ 5,799,082.00
JPMorgan Chase Bank, N.A.	T-237070	ORANGE COUNTY, FLORIDA	5/1/16	$ 5,000.00
Wells Fargo Bank, National Association	SM222725W	U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE	11/8/15	$ 4,249,000.00
Wells Fargo Bank, National Association	SM414652C	U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE	10/1/15	$ 3,307,500.00

LC Issuing Bank	Letter of Credit Number	Beneficiary	Expiration Date	Undrawn Stated Amount as of Closing Date
Wells Fargo Bank, National Association	SM416162C	U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE	3/1/16	$ 2,807,291.67
PNC Bank, National Association	900961	CITY OF ELIZABETH	7/1/16	$ 10,000,000.00
PNC Bank, National Association	18110844	WEST VIRGINIA MUNICIPAL BOND COMMISSION ON BEHALF OF THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY	12/19/15	$ 15,424.00
PNC Bank, National Association	18110990	WEST VIRGINIA MUNICIPAL BOND COMMISSION ON BEHALF OF THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY	1/16/16	$ 40,872.00
PNC Bank, National Association	18111665	WEST VIRGINIA MUNICIPAL BOND COMMISSION ON BEHALF OF THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY	6/29/16	$ 11,970.00

LC Issuing Bank	Letter of Credit Number	Beneficiary	Expiration Date	Undrawn Stated Amount as of Closing Date
PNC Bank, National Association	18111668	WEST VIRGINIA MUNICIPAL BOND COMMISSION ON BEHALF OF THE WEST VIRGINIA WATER DEVELOPMENT AUTHORITY	8/12/15	$ 35,328.00
TOTAL UNDRAWN STATED AMOUNT:				**$ 40,384,924.86**

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AWK 8-K 6/18/2015

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 18, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ **Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)**

☐ **Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)**

☐ **Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))**

☐ **Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))**

Item 2.02. Results of Operations and Financial Condition

On June 18, 2015, American Water Works Company, Inc. issued a press release announcing that it has agreed to acquire Keystone Clearwater Solutions, LLC from Rex Energy Corporation. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1	Press Release, dated June 18, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 18, 2015

By: /s/ Michael A. Sgro
Michael A. Sgro
Senior Vice President, General Counsel and Secretary

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Section 2: EX-99.1 (EX-99.1)

EXHIBIT 99.1

PRESS RELEASE

AMERICAN WATER

June 18, 2015

Edward Vallejo
Vice President, Investor Relations
856-566-4005
edward.vallejo@amwater.com

Maureen Duffy
Vice President, Communications
856-309-4546
maureen.duffy@amwater.com

American Water Announces Agreement to Acquire Keystone Clearwater Solutions

VOORHEES, N.J., June 18, 2015 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today announced that it has agreed to acquire Keystone Clearwater Solutions (Keystone) from Rex Energy Corporation. The transaction values the company at $130 million.

Keystone, headquartered in Hershey, Pa., is a water service provider offering a range of water related services to the oil and gas industry primarily in the Appalachian region of Pennsylvania, Ohio and West Virginia.

“Keystone Clearwater Solutions provides turn-key water solutions to the shale gas industry in a safe and environmentally responsible manner,” said Susan Story, president and CEO of American Water. “We are excited because Keystone’s offerings are in line with American Water’s core competencies – supplying, transmitting, pumping and storing water and building the infrastructure required to do so. Keystone’s commitment to its customers, its operational focus and its commitment to environmental responsibility and safety are also aligned with American Water’s values and have allowed Keystone to grow into a market leader in the shale gas water services segment in only a few years. We will continue leveraging the expertise of the talented team of Keystone employees who have built this successful organization.”

Story added, “This acquisition delivers on one of our growth strategies to develop complementary businesses. Coupled with our existing activity in shale, the Keystone acquisition will enhance our ability to provide additional water services solutions to shale development companies."

Upon completion of the acquisition, Keystone will operate as a separate, independent subsidiary of American Water.

“We are excited about this acquisition by American Water,” said Ned Wehler, founder and chief executive officer of Keystone, who will continue to lead the organization. “American Water’s commitment to its customers, safety, the development of its employees and environmental protection is consistent with Keystone’s philosophy. We look forward to a bright future together.”

American Water anticipates closing on the transaction in July.

About Keystone Clearwater Solutions

Keystone Clearwater Solutions provides customized water sourcing, transfer and hydraulic fracturing support including intake development, turnkey pipeline construction, water storage, management support and transfer services for Shale Gas operators.

Founded in 2009, Keystone Clearwater is a water management company, serving the needs of customers in the markets where we live and work. Keystone's origins were established through its management team's long-standing history and sound reputation in the environmental engineering and water management field, including water systems engineering, permitting, construction and O&M.

About Rex Energy

Rex Energy, headquartered in State College, Pennsylvania, is an independent oil and gas exploration and production company operating in the Appalachian and Illinois Basins within the United States. The company's strategy is to pursue its higher potential exploration drilling prospects while acquiring oil and natural gas properties complementary to its portfolio.

About American Water

Founded in 1886, American Water is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs 6,400 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found at www.amwater.com.

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AWK 8-K 6/1/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 1, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.07. Submission of Matters to a Vote of Security Holders

Results of 2015 Annual Meeting of Stockholders

The 2015 Annual Meeting of the Stockholders (the "2015 Annual Meeting") of American Water Works Company, Inc., a Delaware corporation (the "Company"), was convened on May 15, 2015 and subsequently adjourned until June 1, 2015 to allow the Company's stockholders additional time to vote on the proposals set forth in the Company's definitive proxy statement and definitive proxy card filed with the Securities and Exchange Commission (the "SEC") on March 27, 2015. The adjournment of the 2015 Annual Meeting was approved with a vote of 157,048,317 shares, representing all of the shares that were represented in person or by proxy and entitled to vote on the adjournment of the 2015 Annual Meeting. At the adjourned meeting held on May 15, 2015, the holders of 157,048,317 shares, or 87.3 percent of the Company's common stock, were represented in person or by proxy constituting a quorum.

At the reconvened meeting held on June 1, 2015, the holders of 157,343,427, or 87.5 percent of the Company's common stock, were represented in person or by proxy constituting a quorum. At the meeting:

(1) the following director nominees were re-elected as directors of the Company for a term expiring at the 2016 Annual Meeting of Stockholders and until their successors are duly elected and qualified, and received the votes set forth adjacent to their names below:

	For	Against	Abstain	Broker Non Votes
Julie A. Dobson	138,237,558	202,557	300,065	18,603,247
Paul J. Evanson	138,061,538	376,208	302,434	18,603,247
Martha Clark Goss	137,778,023	665,360	296,797	18,603,247
Richard R. Grigg	138,128,048	307,277	304,855	18,603,247
Julia L. Johnson	137,387,279	1,054,923	297,978	18,603,247
Karl F. Kurz	138,050,621	224,811	464,748	18,603,247
George MacKenzie	136,814,573	795,915	1,129,692	18,603,247
William J. Marrazzo	137,564,276	871,280	304,624	18,603,247
Susan N. Story	138,008,357	434,014	297,809	18,603,247

(2) the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015 was ratified by the following vote:

For	Against	Abstain
154,993,145	1,833,375	516,907

(3) the advisory vote on executive compensation of the Company's named executive officers was approved by the following vote:

For	Against	Abstain	Broker Non Votes
135,927,413	2,087,024	725,743	18,603,247

(4) the material terms of the Performance Goals set forth in the Company's 2007 Omnibus Equity Compensation Plan was re-approved by the following vote:

For	Against	Abstain	Broker Non Votes
134,722,286	3,544,162	473,732	18,603,247

(5) the material terms of the Performance Goals set forth in the Company’s Annual Incentive Plan was approved by the following vote:

For	Against	Abstain	Broker Non Votes
136,249,007	2,006,548	484,625	18,603,247

(6) the adoption by the Company’s Board of Directors of an amendment to the Company’s Amended and Restated Bylaws providing that the courts located within the State of Delaware will serve as the exclusive forum for the adjudication of certain legal actions was approved by the following vote:

For	Against	Abstain	Broker Non Votes
71,958,351	66,326,447	455,382	18,603,247

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 5, 2015	By: /s/ Linda G. Sullivan Linda G. Sullivan Senior Vice President, Chief Financial Officer

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AWK 8-K 5/9/2014

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 9, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

Susan N. Story became the President and Chief Executive Officer of American Water Works Company, Inc. (the "Company") on May 9, 2014. Previously, she served as the Company's Senior Vice President and Chief Financial Officer.

On May 9, 2014, the Company entered into an employment letter agreement with Ms. Story (the "Employment Agreement"). Under the Employment Agreement, effective on May 10, 2014, Ms. Story's annual base salary was increased to $700,000. In addition, her target payout under the Company's Annual Incentive Plan ("AIP") was increased to 100% of her annual base salary. In accordance with the terms of the Employment Agreement, Ms. Story's 2014 AIP target award and the salary amount upon which the target award is based have been prorated to reflect the portions of the year she has served as Senior Vice President and Chief Financial Officer and will serve as President and Chief Executive Officer. Moreover, pursuant to the Employment Agreement, Ms. Story's target payout under the Company's Long-Term Incentive Plan ("LTIP") was increased to 200% of her annual base salary and, in addition to the LTIP grant she previously received in 2014, Ms. Story received an additional LTIP grant to reflect her increased salary and LTIP target payout. The Employment Agreement provides that the additional LTIP grant be made in the same proportions and on the same terms as the LTIP grant that she previously received for 2014. The additional grant included 4,807 performance share units ("PSUs"), of which 2,288 PSUs represent a contingent right to receive one share of Company common stock, with the actual number of shares to be awarded based on the Company's total stockholder return relative to the performance of the other companies in the Dow Jones U.S. Utilities Total Return Index over the three-year performance period beginning on January 1, 2014 and ending December 31, 2016. The remaining 2,519 PSUs also represent a contingent right to receive one share of Company common stock, with the actual number of shares to be awarded based upon (a) the average of the ratio of the Company's regulated operations' total operation and maintenance expense to total operating revenues for each of 2014, 2015 and 2016 and (b) growth of the Company's earnings per share (as adjusted) compounded annually over the three year period from January 1, 2014 through December 31, 2016. In addition, Ms. Story was granted 1,679 restricted stock units that settle in shares of Company common stock on a one share per unit basis and vest in three equal installments on January 1, 2015, 2016 and 2017. Ms Story also was granted a stock option to purchase 14,996 shares of Company common stock at an exercise price of $46.26 per share. The option vests in three equal installments on January 1, 2015, 2016 and 2017.

In accordance with the Company's executive severance policy, in the event Ms. Story's employment is terminated by the Company without cause (as determined by the Board of Directors) she would receive salary continuation and COBRA benefits, and would continue to participate in any Company-sponsored life insurance plan, for a period of 18 months following termination. She also would receive a pro rata AIP award for the year in which the termination occurs, to the extent such payment is provided for under the terms of the applicable AIP.

The foregoing summary of the Employment Agreement is qualified in all respects by reference to the Employment Agreement, a copy of which is attached to this Form 8-K as Exhibit 99.1 and is incorporated by reference into this report.

Item 5.07. Submission of Matters to a Vote of Security Holders

Results of 2014 Annual Meeting of Stockholders

The Annual Meeting of the Stockholders of the Company was held on May 9, 2014.

At the meeting, the holders of 158,276,856, or 89 percent of the Company's common stock were represented in person or by proxy constituting a quorum. At the meeting:

(1) the following nominees were elected as directors of the Company for a term expiring at the 2015 Annual Meeting and received the votes set forth adjacent to their names below:

	For	Against	Abstain	Broker Non Votes
Julie A. Dobson	132,967,787	928,925	160,897	24,219,247
Paul J. Evanson	133,560,888	329,704	167,017	24,219,247
Martha Clark Goss	133,543,529	357,568	156,512	24,219,247
Richard R. Grigg	132,933,795	961,304	162,510	24,219,247
Julia L. Johnson	131,982,692	1,913,507	161,410	24,219,247
George MacKenzie	133,535,645	364,502	157,462	24,219,247
William J. Marrazzo	133,503,678	395,534	158,397	24,219,247
Susan N. Story	133,696,723	206,319	154,567	24,219,247

(2) the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014 was ratified by the following vote:

For	Against	Abstain
156,936,859	1,044,771	295,226

(3) the advisory vote on executive compensation was approved by the following vote:

For	Against	Abstain	Broker Non Votes
129,518,815	3,455,835	1,082,959	24,219,247

Item 8.01. Other Matters

On May 9, 2014, the board of directors of the Company reconstituted the committees of the board.

The membership of the reconstituted committees of the board of directors is as follows:

Audit Committee	Compensation Committee	Finance Committee	Nominating/Corporate Governance Committee
Julie A. Dobson (Chair)	William J. Marrazzo (Chair)	Richard R. Grigg (Chair)	Julia L. Johnson (Chair)
Martha Clark Goss	Paul J. Evanson	Martha Clark Goss	Julie A. Dobson
William J. Marrazzo	Julia L. Johnson	Paul J. Evanson	Richard R. Grigg

Item 9.01 Exhibits.

Exhibit No.	Description
99.1	Employment Letter Agreement, dated May 9, 2014, between the Company and Susan Story.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Date: May 14, 2014

By: /s/ Kellye L. Walker
Kellye L. Walker
Senior Vice President, General Counsel and Secretary

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

AMERICAN WATER

George MacKenzie P 856.346.8200
Chairman of the Board of Directors
1025 Laurel Oak Road
Voorhees, NJ 08043

May 9, 2014

Ms. Susan Story
1414 South Penn Square
Philadelphia, PA 19102

Re: Employment Letter Agreement

Dear Susan:

On behalf of American Water Works Company, Inc. (the “Company”) and its Board of Directors, we are delighted to provide you with this new employment letter agreement (this “Agreement”) in anticipation of your election to the role of President and Chief Executive Officer effective as of your election to said office on May 9, 2014. As President and Chief Executive Officer of the Company, you shall have the authority to control the day-to-day operations of the Company and its corporate strategy, subject to the Company’s Bylaws and Delegation of Authority and to the directions and decisions of the Company’s Board of Directors. The following are the terms and conditions of your employment as the Company’s President and Chief Executive Officer:

1. Annual Base Salary. Effective May 10, 2014, your annual base salary will be increased to $700,000.00, payable in accordance with the Company’s normal payroll practices.

2. Annual Incentive Plan. You will continue to participate in the Company’s Annual Incentive Plan (“AIP”). Your target award under the AIP is 100% of your annual base salary, and for 2014 will be prorated at each salary and target level. Under the terms of the AIP, your actual award payout may be up to 200% of your target award and will be dependent on both (i) your individual performance which may result in an individual performance factor range of 0 to 200% of your target award and (ii) the application of the Company’s Corporate Multiplier (which may range from 0 to 150%) to your individual award. The Board of Directors will establish each performance year a set of mutually agreed upon AIP goals and objectives for you as President and CEO. Your AIP award for 2014 will be based on the level of progress towards achieving the goals and objectives that were agreed upon and approved by the Board of Directors, as reflected in the minutes of the meeting of the Board of Directors at which they were approved.

3. Long Term Incentive Plan.

    a. You will continue to be eligible to participate in the Company’s Long Term Incentive Plan (“LTIP”).

b. Your target payout under the LTIP is 200% of your annual base salary. In addition to the LTIP grant that you have already received for 2014, you will receive an additional LTIP grant within ten (10) days after the date of this Agreement to reflect your new salary and new level of your LTIP target payout, with the value of such additional LTIP grant determined as of the date of grant and with it being made in the same proportions and on the same terms as the LTIP grant that you have already received for 2014.

4. Terms of AIP and LTIP. It is understood that the Board has a right to amend the Company's AIP and LTIP plans, and may do so during the term of your employment. As a result, the terms of your participation in such plans may vary from that described herein or contemplated hereby, provided that any such changes do not materially impair any rights or obligations under any Grant previously made to you or otherwise reduce any benefits accrued as of such date.

5. Executive Severance Policy. You will be entitled to the benefits and subject to the terms of the Company's executive severance policy which provides severance benefits to executives whose employment is involuntarily terminated by American Water for reasons other than cause. Under the policy, you will receive, among other benefits, company-paid COBRA, salary continuation benefits in the form of 18 months of your base salary and a prorated annual incentive plan award.

6. Benefits. You will be eligible to participate in the Company's comprehensive benefits package, which currently includes, without limitation, medical, dental, vision, life and accidental death and dismemberment insurance and short-term and long-term disability insurance, as in effect from time to time for the Company's senior management.

7. Retirement and Deferred Compensation Plans. You will be eligible to participate in the Company's 401(k) Plan and the Company's Nonqualified Savings and Deferred Compensation Plan pursuant to the terms of those Plans as in effect from time to time provided that no amendment to any such plan shall reduce your accrued benefits to the date of such amendment.

8. Outside Activities.

   a. The Board of Directors of the Company understands and hereby acknowledges that currently you are a member of the board of directors of Raymond James Financial, Inc. It is hereby expressly agreed that for a period of twenty-four (24) months, you will not serve or seek to serve on the board of directors of any other "for profit" company. Except as permitted and set forth in this paragraph 8, you will not engage in any business activity or serve on the board of directors or advisory committee of any for-profit corporation, partnership, limited liability company or other form of business or entity without the prior approval of the Board of Directors of the Company.

   b. The Board of Directors of the Company understands that during your term of employment with the Company you will be involved in one or more non-profit organizations and/or associations including those which may relate to the Company's strategy or regulated industries.

9. Vacation. You are entitled to five (5) weeks of vacation each year which must be used in accordance with the Company's vacation policy.

10. Section 409A of the Internal Revenue Code.

    a. Notwithstanding any other provisions hereof, this Agreement is intended to comply with the requirements of Section 409A of the Internal Revenue Code (the "Code"), to the extent applicable, and this Agreement shall be interpreted to avoid any taxes, interest, penalty or other sanctions under Section 409A of the Code. Accordingly, all provisions herein, or incorporated by reference, shall be construed and interpreted to comply with Section 409A of the Code and, if necessary, any such provision shall be deemed amended to comply with Section 409A of the Code and regulations thereunder. All payments to be made upon a termination of employment under this Agreement that are deferred compensation may only be made upon a "separation from service" under Section 409A of the Code. For purposes of Section 409A of the Code, each payment made under this Agreement (including each payment in a series of installments) shall be treated as a separate payment. To the extent an amount subject to Section 409A of the Code is payable during a specified period, in no event may you, directly or indirectly, designate the calendar year of payment.

b. To the maximum extent permitted under Section 409A of the Code, any severance benefits payable under this Agreement are intended to comply with the "short-term deferral exception" under Treas. Reg. §1.409A-1(b)(4), and any remaining amount is intended to comply with the "separation pay exception" under Treas. Reg. § 1.409A-1 (b)(9)(iii); provided, however, any amount payable to you during the six (6) month period following your date of separation from service that does not qualify within either of the foregoing exceptions and constitutes deferred compensation subject to the requirements of Section 409A of the Code shall hereinafter be referred to as the "Excess Amount." If at the time of your separation from service, you are a "specified employee" (as defined in Section 409A of the Code and determined in the sole discretion of the Company), then the Company shall postpone the commencement of the payment of the portion of the Excess Amount that is payable within the six (6) month period following your separation from service with the Company (or any successor thereto) for six (6) months following your termination date with the Company (or any successor thereto). The delayed Excess Amount shall be paid in a lump sum to you on the first payroll date following the date that is six (6) months following your separation from service with the Company (or any successor thereto). If you die during such six (6) month period and prior to the payment of the portion of the Excess Amount that is required to be delayed on account of Section 409A of the Code, such Excess Amount shall be paid to the personal representative of your estate on the first payroll date following our death. All other payments shall be paid when otherwise scheduled.

11. Prior Employment Agreement. This Agreement supersedes and replaces in its entirety that certain letter agreement between the Company and you dated as of February 6, 2013.

Except and so far as you and the Company agree otherwise in writing, your employment with the Company shall remain at-will, which means that your employment with the Company may be terminated by you or the Company at any time, with or without Cause.

Susan, we look forward to working with you as President and CEO as you continue to execute on our strategy and grow the Company.

Please signify your agreement with the foregoing terms of your continued employment by returning to my attention the original of this Agreement.

Sincerely yours,

G. MacKenzie

George MacKenzie
Chairman of the Board

AGREED:

Susan N. Story

Susan N. Story

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AWK 8-K 5/7/2014

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 7, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On May 7, 2014, American Water Works Company, Inc. issued a press release announcing its financial results for the first quarter of 2014, ended March 31, 2014. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1	Press Release, dated May 7, 2014, issued by American Water Works Company, Inc.

Signature(s)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: May 7, 2014

By /s/ Susan N. Story
Susan N. Story
Senior Vice President and Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE
AMERICAN WATER

May 7, 2014

Edward Vallejo
Vice President, Investor Relations
856-566-4005
edward.vallejo@amwater.com

Maureen Duffy
Vice President, Communications
856-309-4546
maureen.duffy@amwater.com

AMERICAN WATER REPORTS SOLID FIRST QUARTER RESULTS

- **Operating revenue increased 7.2 percent to $681.9 million.**
- **Net income totaled $68.1 million, or $0.38 per diluted common share. Adjusted net income (a non-GAAP financial measure) totaled $71.7 million, or $0.40 per diluted common share.**
- **Company completed three regulated acquisitions year to date, expanded Market-based business.**
- **Company affirms its 2014 ongoing earnings to be in the range of $2.35 to $2.45 per share, excluding the impact of the Freedom Industries chemical spill in West Virginia.**

VOORHEES, N.J., May 7, 2014 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today reported solid results for the first quarter of 2014.

“This winter’s extreme weather put many water providers to the test, but our employees’ commitment to reliable service did not waver,” said Jeff Sterba, president and CEO of American Water. “Despite very challenging conditions, we had a very solid first quarter, with increases in revenues and net income, growth in both our regulated and Market-based businesses, and continued improvement in our operation and maintenance efficiency ratio.”

For the three months ended March 31, 2014, the company reported net income of $68.1 million, or $0.38 per diluted common share. Excluding the one-time impact of the Freedom Industries chemical spill in West Virginia, the company’s adjusted net income (a non-GAAP financial measure) for the three months ended March 31, 2014, totaled $71.7 million, or $0.40 per diluted common share.

The company’s capital investments during the first quarter totaled approximately $175 million. The company anticipates investing $1.1 billion in 2014, with the majority allocated to upgrading its water and wastewater systems to ensure reliable service to customers.

Regulated Operations

For the three months ended March 31, 2014, American Water's Regulated Businesses' revenues increased by $34.4 million, or 6.0 percent, as compared to the same quarter in 2013. The increase in revenues was primarily due to rate authorizations and infrastructure surcharges, as well as higher consumption and acquisitions from 2013.

The Regulated Businesses' operation and maintenance (O&M) expense increased $8.9 million, or 3.3 percent for the quarter, as compared to the first quarter of 2013. On Jan. 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances – 4-methylcyclohexane methanol (MCHM), and PPH/DiPPH, a mix of polyglycol ethers – into the Elk River near the West Virginia American Water treatment plant in Charleston, W. Va. The company's increased O&M expense and reduced revenues for the quarter totaled $5.9 million as a result of this event. Despite this impact, the regulated entities showed continued improvement in their O&M efficiency ratio (a non-GAAP measure). For the 12 months ended March 31, 2014, the adjusted O&M efficiency ratio was 38.2 percent, compared to 40.0 percent for the previous 12-month period.

American Water's Regulated Businesses continue to upgrade and maintain their water and wastewater systems. Rate adjustments and infrastructure surcharge authorizations are given in recognition of that investment, and the company's operational efficiencies are reducing the total impact on the customers' bills at the same time. During the first quarter, the company received a rate authorization in Iowa for an additional $3.8 million in annualized revenues, which includes $2.7 million in interim rates that were already implemented. This rate authorization was put into effect in April 2014. Additional annualized revenues of $13.8 million in infrastructure surcharges were granted in the first quarter to the company's New York, New Jersey and Illinois subsidiaries. Also during the quarter, a rate case was filed in Indiana, requesting an additional $19.6 million in annualized income, and the company's Missouri subsidiary filed for $3.1 in additional annualized revenue from infrastructure surcharges. Subsequent to the quarter, the final $1.2 million in annualized revenue from a general rate case awarded in New York in March 2012 became effective, and an additional $0.2 in infrastructure surcharges were put into effect. Also, the company's Tennessee subsidiary received approval of its request for $0.5 million in surcharges that collectively cover approximately $7.5 million in local water infrastructure improvements that the company has made or will make this year.

As of May 5, 2014, the company was awaiting final orders for general rate cases in two states, requesting $52.0 million in total additional annual revenues. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary. All annualized revenue amounts are based on current usage.

“American Water plans to spend approximately $5.8 billion in capital investment over the next five years, with approximately $5.1 billion committed to investments to improve the infrastructure that ensures quality and reliability for our customers,” said Sterba. “This time of year is when all water providers issue their annual water quality reports, and for 2013, American Water again scored above 99 percent for compliance with EPA standards. This is because of employees’ commitment to our customers and our ongoing and proactive program to upgrade and maintain pipes, pumps and plants. As we continue to make those needed investments, we also continue to increase our efficiencies and manage our costs to ensure we strike the right balance between needed upgrades and the cost of providing reliable service.”

In terms of regulated growth, since the beginning of the year, the company completed three acquisitions in Indiana and Missouri. American Water is currently awaiting regulatory approval of five additional acquisitions in California, Illinois and New York. The company also continues to provide a reliable supply of water to the communities in shale-enriched areas in Pennsylvania, as well as to multiple energy companies, and currently has 39 points of interconnection in that area. In January 2014, the company signed two new agreements with Rex Energy and XTO Energy for improvement projects including main replacement and the installation of new booster and pumping stations.

Market-Based Operations

The company’s Market-Based Businesses’ revenues increased by $11.5 million, or 17.0 percent, for the quarter, compared to the first quarter of 2013. The increase was mainly due to additional revenues from capital project activities in the company’s military services group, as well as contract growth in the company’s homeowner services business. The Market-Based Businesses’ O&M expense increased $6.6 million, or 11.2 percent, for the quarter as compared to the same quarter in 2013.

American Water’s Market-Based Businesses also continued to grow. In January 2014, the company announced its tenth contract with the U.S. military at Hill Air Force Base in Utah. The company’s homeowner services business, American Water Resources, also expanded its service offerings in four new states this year to date, and currently has nearly 700,000 customers and 1.3 million customer contracts in 40 states.

Quarterly Dividend

In recognition of the company’s financial performance, American Water’s board of directors in December 2013 declared a quarterly cash dividend payment of $0.28 per common share, paid on March 3, 2014, to all shareholders of record as of Feb. 3, 2014.

On April 29, 2014, in recognition of the company’s performance, the board of directors increased its quarterly cash dividend payment from $0.28 per common share to $0.31 per common share, an approximate 11 percent increase, payable on June 2, 2014, to all shareholders of record as of May 12, 2014.

2014 Earnings Guidance

American Water estimates its 2014 ongoing earnings to be in the range of $2.35 to $2.45 per share, excluding the impact of the Freedom Industries chemical spill in West Virginia, which was $0.02 per share through March 31, 2014. The company estimates an additional impact of $0.01 to $0.02 per share through the rest of the year. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports.

Non-GAAP Financial Measures

This press release includes a presentation of adjusted net income and adjusted earnings per share (EPS). These items are derived from American Water's consolidated financial information but are not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted net income and adjusted EPS are defined, respectively, as GAAP net income and GAAP diluted earnings per common share excluding the one-time impact of the Freedom Industries chemical spill in West Virginia, which was $0.02 per share through March 31, 2014. These items constitute "non-GAAP financial measures" under Securities and Exchange Commission (SEC) rules. These non-GAAP financial measures supplement the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water's baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company's performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). The item constitutes a "non-GAAP financial measure" under Securities and Exchange Commission (SEC) rules. This non-GAAP financial measure supplements the company's GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill, which involve items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below are tables that reconcile the non-GAAP financial measures to the most directly comparable GAAP financial measures.

First Quarter 2014 Earnings Conference Call

The first quarter 2014 earnings conference call will take place on Thursday, May 8, 2014, at 9 a.m. Eastern Daylight Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company's website at www.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through May 15, 2014, by dialing 303-590-3030 for U.S. and international callers. The access code for replay is 4678978. The online archive of the webcast will be available through June 9, 2014, by accessing the Investor Relations page of the company's website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs approximately 6,600 dedicated professionals who provide drinking water, wastewater and other related services to an estimated 14 million people in more than 40 states and parts of Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events and may relate to, among other things, its future financial performance, including earnings, growth and portfolio optimization strategies, its ability to finance current operations and growth initiatives, trends in its industry, regulatory or legal developments or rate adjustments. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action related to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal and intercoastal flooding; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations and the growth of its business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on the company's current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase its cost and funding requirements; migration of customers into or out of its service territories; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; the incurrence of impairment charges; labor actions including work stoppages and strikes; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual, quarterly and current SEC filings. The company undertakes no duty to update any forward-looking statement.

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Income (Unaudited)
In thousands except per share data

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Operating revenues	$681,946	$636,137
Operating expenses		
Operation and maintenance	329,275	312,203
Depreciation and amortization	106,078	99,649
General taxes	60,767	60,146
(Gain) loss on asset dispositions and purchases	(270)	(94)
Total operating expenses, net	495,850	471,904
Operating income	186,096	164,233
Other income (expenses)		
Interest, net	(73,560)	(78,114)
Allowance for other funds used during construction	2,201	3,396
Allowance for borrowed funds used during construction	1,483	1,653
Amortization of debt expense	(1,673)	(1,581)
Other, net	(1,541)	(776)
Total other income (expenses)	(73,090)	(75,422)
Income before income taxes	113,006	88,811
Provision for income taxes	44,883	31,168
Net income	$ 68,123	$ 57,643
Basic earnings per common share	$ 0.38	$ 0.32
Diluted earnings per common share	$ 0.38	$ 0.32
Average common shares outstanding during the period:		
Basic	178,539	177,327
Diluted	179,457	178,465
Dividends declared per common share	$ 0.00	$ 0.00

American Water Works Company, Inc. and Subsidiary Companies

Condensed Consolidated Balance Sheet Information (Unaudited)
In thousands

	March 31, 2014	December 31, 2013
Cash and cash equivalents	$ 30,755	$ 26,964
Other current assets	657,239	542,035
Total property, plant and equipment	12,469,981	12,391,162
Total regulatory and other long-term assets	2,116,846	2,127,981
Total Assets	$15,274,821	$15,088,142
Short-term debt	$ 638,227	$ 630,307
Current portion of long-term debt	14,901	14,174
Other current liabilities	544,571	591,052
Long-term debt	5,224,639	5,230,058
Total regulatory and other long-term liabilities	3,004,483	2,852,043
Contributions in aid of construction	1,046,913	1,042,704
Total stockholders' equity	4,801,087	4,727,804
Total Capitalization and Liabilities	$15,274,821	$15,088,142

Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	Last Twelve Months Ended March 31, 2014	2013
Total Operating and Maintenance expense	$1,329,796	$1,352,239
Less:		
Operating and Maintenance expense - Market-Based Operations	270,869	268,268
Operating and Maintenance expense - Other	(55,402)	(57,026)
Total Regulated Operating and Maintenance expense	1,114,329	1,140,997
Less:		
Regulated purchased water expense	114,217	111,747
Allocation of internal Operations and Maintenance expense	35,073	35,376
Impact of West Virginia Freedom Industries Chemical Spill	4,861	—
Adjusted Regulated Operation and Maintenance Expenses (a)	$ 960,178	$ 993,874
Total Operating Revenues	$2,947,667	$2,894,472
Less:		
Operating revenues - Market-Based Operations	336,925	317,084
Operating revenues - Other	(17,583)	(18,408)
Total Regulated operating revenues	2,628,325	2,595,796
Less:		
Regulated purchased water expense *	114,217	111,747
Plus:		
Impact of West Virginia Freedom Industries Chemical Spill	1,012	—
Adjusted Regulated operating revenues (b)	$2,515,120	$2,484,049
Adjusted Regulated Operations and Maintenance Efficiency Ratio (a)/(b)	38.2%	40.0%

* Calculation assumes purchased water revenues approximate purchased water expenses.

Adjusted net income and EPS (A Non-GAAP, unaudited measure)
In thousands except per share data

	Three Months Ended March 31, 2014 Net Income	Diluted Earnings Per Share
Net income per GAAP	$68,123	$ 0.38
Add: After-tax impact of West Virginia Freedom Industries Chemical Spill	3,541	0.02
Adjusted net income	$71,664	$ 0.40

# # #

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AWK 8-K 5/6/2015

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 6, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On May 6, 2015, American Water Works Company, Inc. issued a press release announcing its financial results for the first quarter ended March 31, 2015. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit	Description
99.1	Press Release, dated May 6, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: May 6, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President, Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE
AMERICAN WATER

May 6, 2015

Edward Vallejo
Vice President, Investor Relations
856-566-4005
edward.vallejo@amwater.com

Maureen Duffy
Vice President, Communications
856-309-4546
maureen.duffy@amwater.com

AMERICAN WATER REPORTS SOLID 2015 FIRST QUARTER RESULTS

- **Company had solid financial performance with revenue up 2.8 percent to $698.1 million and income from continuing operations up 15.8 percent to $80.0 million or $0.44 per diluted common share. Adjusted earnings per share from continuing operations (a non-GAAP financial measure) increased 7.3 percent over same period last year.**
- **Company increased dividend by approximately 10 percent to $0.34 per diluted common share.**
- **Company affirmed 2015 earnings guidance from continuing operations in the range of $2.55 to $2.65 per diluted share.**

VOORHEES, N.J., May 6, 2015 – American Water Works Company, Inc. (NYSE: AWK), the largest and most geographically diverse publicly traded U.S. water and wastewater utility company, today reported solid results for the first quarter ended March 31, 2015.

"While this past winter's weather proved challenging for some of our states, the employees of American Water delivered another quarter of high-quality customer service and solid financial performance," said Susan Story, president and CEO of American Water. "Recognizing our increases in revenue and net income, and ongoing improvement in our operational efficiency, our board of directors approved an approximate 10 percent increase to our cash dividend in April. This is the third consecutive year of double-digit increases in our dividend payouts, which are an important part of our ability to attract capital for investment to ensure safe, clean and reliable water services for our customers."

Continuing Operations

For the first quarter of 2015, the company reported income from continuing operations of $80.0 million, or $0.44 per diluted common share, compared with income from continuing operations of $69.1 million, or $0.39 per diluted common share, in the first quarter of 2014. Excluding the impact of the Freedom Industries chemical spill in West Virginia of $0.02 per diluted share in 2014, adjusted earnings per share from continuing operations (a non-GAAP financial measure) increased by 7.3 percent from $0.41 per diluted share in 2014. This increase was mainly due to continued revenue growth in the Regulated Businesses, lower operating and maintenance expenses and the finalization of the company's general rate case in California.

The company made capital investments during the quarter of approximately $167.3 million to continue to provide reliable service to customers. American Water plans to invest $1.2 billion in 2015 to improve its water and wastewater systems, with approximately $0.1 billion allocated to acquisitions and strategic investments.

Regulated Operations

For the quarter, American Water's Regulated Businesses' revenues increased by $7.8 million, or 1.3 percent, compared to the same quarter in 2014. The increase in revenues was primarily due to rate authorizations and infrastructure charges. The increases were partially offset by lower demand.

The Regulated Businesses' operation and maintenance (O&M) expense decreased $11.5 million, or 4.1 percent, for the first quarter of 2015. The decreased costs were primarily due to lower production and operating supplies and services costs, partly due to higher costs incurred in 2014 from the Freedom Industries chemical spill, as well as the 2015 California rate case settlement adjustments.

As of May 6, 2015, the company received approximately $27.7 million in additional annualized revenues from general rate cases and infrastructure charges for 2015. This includes a rate authorization in Indiana for additional annualized revenues of $5.1 million, and a settlement in the company's general rate case in California providing additional annualized revenues of $5.2 million.

As of May 6, 2015, the company was awaiting final orders and/or proposed settlements for general rate cases in four states, requesting approximately $102.4 million in total additional revenues and $4.4 million in infrastructure charges in three states. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary. All revenue amounts are based on current usage.

American Water continued its focus on operational efficiencies to maintain the reliability of water services through needed capital investment while at the same time limiting the impact on customer bills. For the 12-month period ended March 31, 2015, the O&M efficiency ratio (a non-GAAP measure) improved to 36.3 percent, compared to 38.0 percent for the previous 12 months.

"Our efforts to control costs while ensuring high-quality service and reliability go hand-in-hand to deliver the best value for our customers. Our capital expenditure strategy allows us to make needed investments that translate into excellent service and improved infrastructure reliability," said Story. "This is the time of year when we provide our annual water quality reports to customers and once again, American Water scored over 99 percent for meeting or surpassing federal drinking water regulations across our footprint. This exceptional water quality record is 20 times better than the industry average for meeting the Environmental Protection Agency's safe drinking water requirements, and this is directly attributable to the dedication and expertise of our people and the investments we make into our systems."

Market-Based Operations

For the quarter, Market-Based revenues increased by $11.6 million, or 15.3 percent, as compared to the first quarter of 2014. The increase was mainly due to increased construction activities and the addition of two new contracts in the company's Military Services Group, combined with continued growth in the homeowner services business.

The Market-Based Businesses' O&M expense increased by $11.8 million, or 19.1 percent, for the first quarter 2015 as compared to the same quarter in 2014. Higher costs were mainly due to an increase in construction projects for military contracts, as well as costs associated with the addition of two military contracts, corresponding to the higher revenues. Higher claims expenses in the company's homeowner services business also contributed to the increase.

American Water's Market-Based Businesses continued to grow. The company's homeowner services business, American Water Resources, recently launched its exclusive partnership with the Orlando Utilities Commission to offer home warranty protection programs to more than 200,000 residential customers.

Quarterly Dividend

On April 28, 2015, American Water's board of directors increased the company's quarterly cash dividend payment from $0.31 to $0.34 per share, in recognition of the company's performance. The increased dividend will be payable on June 1, 2015, to all shareholders of record as of May 11, 2015.

On Dec. 12, 2014, the board of directors had declared a quarterly cash dividend payment of $0.31 per share, which was paid on March 2, 2015, to all shareholders of record as of Feb. 9, 2015.

2015 Earnings Guidance

American Water affirmed its 2015 earnings guidance from continuing operations to be in the range of $2.55 to $2.65 per diluted share. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports filed with the Securities and Exchange Commission (SEC).

Non-GAAP Financial Measures

This press release includes a presentation of adjusted earnings per share (EPS) from continuing operations. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted EPS from continuing operations is defined as GAAP diluted earnings per common share from continuing operations excluding the one-time impact of the Freedom Industries chemical spill in West Virginia in 2014. This item constitutes a “non-GAAP financial measure” under SEC rules. This non-GAAP financial measure supplements the company’s GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water’s baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company’s performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses, and the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill as well as the estimated impact of weather. This item is derived from American Water’s consolidated financial information but is not presented in its financial statements prepared in accordance with GAAP. The item constitutes a “non-GAAP financial measure” under SEC rules. This non-GAAP financial measure supplements the company’s GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company’s operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill and weather, which involve items that are not reflective of management’s ability to increase efficiency of the company’s regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company’s historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below are tables that reconcile the non-GAAP financial measures to the most directly comparable GAAP financial measures.

2015 First Quarter Earnings Conference Call

The 2015 first quarter earnings conference call will take place on Thursday, May 7, 2015, at 9 a.m. Eastern Daylight Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company’s website at www.amwater.com. Presentation slides that will be used in conjunction with the earnings conference call are also available online at http://ir.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through May 14, 2015, by dialing 412-317-0088 for U.S. and international callers. The access code for replay is 10063598. The online archive of the webcast will be available through June 8, 2015, by accessing the Investor Relations page of the company’s website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs 6,400 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, 2015 earnings guidance and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water’s current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions’ actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action including as related to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal, intercoastal flooding and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its technology systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies and attacks on its computer systems; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including, concession arrangements and agreements for the provision of water services in shale regions for exploration and production; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on the company's current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; migration of customers into or out of its service territories and the condemnation of its systems by municipalities using the power of eminent domain; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement, except as otherwise required by the federal securities laws.

AMERICAN WATER REPORTS 2015 FIRST QUARTER RESULTS

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

	For the Three Months Ended March 31,	
	2015	**2014**
Operating revenues	$ 698,078	$ 679,003
Operating expenses		
Operation and maintenance	323,832	325,180
Depreciation and amortization	107,377	105,924
General taxes	63,696	60,667
Gain on asset dispositions and purchases	(1,128)	(210)
Total operating expenses, net	493,777	491,561
Operating income	204,301	187,442
Other income (expenses)		
Interest, net	(75,673)	(73,560)
Allowance for other funds used during construction	2,360	2,201
Allowance for borrowed funds used during construction	2,522	1,483
Amortization of debt expense	(1,764)	(1,673)
Other, net	1,756	(1,541)
Total other income (expenses)	(70,799)	(73,090)
Income from continuing operations before income taxes	133,502	114,352
Provision for income taxes	53,459	45,239
Income from continuing operations	80,043	69,113
Loss from discontinued operations, net of tax	—	(990)
Net income	$ 80,043	$ 68,123
Basic earnings per share:		
Income from continuing operations	$ 0.45	$ 0.39
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)
Net income	$ 0.45	$ 0.38
Diluted earnings per share:		
Income from continuing operations	$ 0.44	$ 0.39
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)
Net income	$ 0.44	$ 0.38
Average common shares outstanding during the period		
Basic	179,458	178,539
Diluted	180,295	179,457
Dividends declared per common share	$ —	$ —

American Water Works Company, Inc. and Subsidiary Companies
Condensed Consolidated Balance Sheet Information (Unaudited)

In thousands

	March 31, 2015	December 31, 2014
Cash and cash equivalents	$ 24,294	$ 23,080
Other current assets	704,725	638,289
Total property, plant and equipment	13,098,567	13,029,296
Total regulatory and other long-term assets	2,435,945	2,440,291
Total Assets	$ 16,263,531	$ 16,130,956
Short-term debt	$ 544,531	$ 449,959
Current portion of long-term debt	61,149	61,132
Other current liabilities	621,868	729,907
Long-term debt	5,443,197	5,448,245
Total regulatory and other long-term liabilities	3,518,588	3,451,250
Contributions in aid of construction	1,081,260	1,074,872
Total stockholders' equity	4,992,938	4,915,591
Total Capitalization and Liabilities	$ 16,263,531	$ 16,130,956

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Earnings Per Share from Continuing Operations (A Non-GAAP, unaudited measure)

	For the Three Months Ended March 31,	
	2015	2014
Income from continuing operations per diluted common share	$ 0.44	$ 0.39
Add:		
After-tax impact of West Virginia Freedom Industries Chemical Spill	0.00	0.02
Adjusted income from continuing operations per diluted common share	$ 0.44	$ 0.41

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	For the Twelve Months Ended March 31,	
	2015	**2014**
Total Operation and Maintenance Expense	$ 1,348,516	$ 1,306,962
Less:		
Operation and maintenance expense—Market-Based Operations	301,183	248,032
Operation and maintenance expense—Other	(52,677)	(55,399)
Total Regulated Operation and Maintenance Expense	1,100,010	1,114,329
Less:		
Regulated purchased water expense	120,590	114,217
Allocation of non-operation and maintenance expense	39,855	35,073
Impact of West Virginia Freedom Industries chemical spill	5,797	4,861
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)
Adjusted Regulated Operation and Maintenance Expense (a)	$ 935,530	$ 961,865
Total Operating Revenues	$ 3,030,403	$ 2,926,000
Less:		
Operating revenues—Market-Based Operations	366,296	315,259
Operating revenues—Other	(17,988)	(17,583)
Total Regulated Operating Revenues	2,682,095	2,628,325
Less:		
Regulated purchased water expense*	120,590	114,217
Plus:		
Impact of West Virginia Freedom Industries chemical spill	—	1,012
Estimated impact of weather (mid-point of range)	16,785	15,625
Adjusted Regulated Operating Revenues (b)	$ 2,578,290	$ 2,530,745
Adjusted Regulated Operation and Maintenance Efficiency Ratio (a)/(b)	36.3%	38.0%

* Calculation assumes purchased water revenues approximate purchased water expenses.

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AWK 8-K 3/12/2014

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 12, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware **(State or other jurisdiction of incorporation)**	**51-0063696** **(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

Appointment of Linda G. Sullivan

On March 12, 2014, American Water Works Company, Inc. (the “Company”) announced that Linda G. Sullivan will become the Company’s Senior Vice President and Chief Financial Officer, effective May 9, 2014. Ms. Sullivan will begin her employment with the Company on April 28, 2014. As previously disclosed, effective at the time of the Company’s 2014 Annual Meeting of Stockholders on May 9, 2014, Jeffry E. Sterba will be succeeded as President and Chief Executive Officer of the Company by Susan N. Story, currently the Senior Vice President and Chief Financial Officer of the Company.

In connection with Ms. Sullivan’s employment and appointment to the offices of Senior Vice President and Chief Financial Officer of the Company, she entered into an employment letter agreement with the Company (the “Employment Agreement”). Under the Employment Agreement, Ms. Sullivan will receive an annual base salary of $460,000, and her target payout under the Company’s Annual Incentive Plan (“AIP”) for 2014 will be equal to 75% of her annual base salary. In addition, Ms. Sullivan will be eligible for an equity award under the Company’s Long-Term Incentive Plan (“LTIP”) with a target payout equal to 125% of her annual base salary. For 2014, Ms. Sullivan’s payout under the AIP and award under the LTIP will not be subject to proration.

Effective upon the commencement of her employment, Ms. Sullivan will also be granted an equity award in an amount equal to $500,000 (priced on date of the grant) (the “Additional Grant”), 70% of which will be performance share units based on total stockholder return and internal Company performance metrics (“PSUs”) and 30% of which will be restricted stock units (“RSUs”). The Additional Grant is designed to replace the economic benefits Ms. Sullivan will forfeit as a result of terminating her current employment. The PSUs will be awarded contingently, and the extent to which they are earned and the underlying shares of our common stock are distributed will be based on the Company’s achievement, over a three-year period, against three performance measures (total stockholder return, operational efficiency improvement and compounded EPS growth). The RSUs will vest in equal one-third increments on January 1, 2015, 2016 and 2017. Upon vesting of the RSUs, Ms. Sullivan will receive an equivalent number of shares of Company common stock. Ms. Sullivan also will receive standard relocation benefits for an executive at her salary level.

In accordance with the Company’s executive severance policy, in the event Ms. Sullivan’s employment is terminated by the Company without cause (as determined by the Board of Directors) she would receive salary continuation and COBRA benefits, and would continue to participate in any Company-sponsored life insurance plan, for a period of 12 months following termination. She also would receive a pro rata AIP award for the year in which the termination occurs, to the extent such payment is provided for under the terms of the applicable AIP.

Ms. Sullivan, 50, has been the Senior Vice President and Chief Financial Officer of Southern California Edison Company, one of the nation’s largest electric utilities and a subsidiary of Edison International, since July 2009. Ms. Sullivan joined Edison International in 1991 and during her career there she has held numerous executive positions, including executive roles overseeing corporate financial accounting and reporting, internal control, property accounting, payroll, accounts receivable and accounts payable. She is a Certified Public Accountant and Certified Management Accountant. Ms. Sullivan holds a B.S. in Business Administration and Accounting from Portland State University.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 12, 2014	By: /s/ Kellye L. Walker Kellye L. Walker Chief Administrative Officer, General Counsel and Secretary

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AWK 8-K 3/4/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): March 4, 2015

American Water Works Company, Inc.

(Exact Name of Registrant Specified in Charter)

Delaware	**001-34028**	**51-0063696**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of Principal Executive Offices, including zip code)

Registrant's telephone number, including area code: (856) 346-8200

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(e) On March 4, 2015, the board of directors of American Water Works Company, Inc. (the “Company”) adopted the American Water Works Company, Inc. Annual Incentive Plan (the “Incentive Plan”). In general, the Incentive Plan provides for the award of cash incentives to eligible employees based on their achievement of certain preset performance objectives over our fiscal year. All incentive awards payable under the Incentive Plan are paid in cash.

The Incentive Plan provides that incentive awards may be made that qualify as qualified performance-based compensation under Section 162 (m) of the Internal Revenue Code (the “Code”). At the Company’s 2015 Annual Meeting of Stockholders, the Company’s stockholders will be asked to approve the material terms of the performance goals under the Incentive Plan for the purposes of Section 162(m) of the Code so that incentive awards may be made under the Incentive Plan that qualify as qualified performance-based compensation under Section 162(m) of the Code. In addition to such awards, incentive awards may be made under the Incentive Plan that do not qualify as qualified performance-based compensation; however, in no event may any award be made under the Incentive Plan in substitution or replacement of an incentive award intended to qualify as qualified performance-based compensation under Section 162(m) of the Code.

The Incentive Plan is administered and interpreted by our compensation committee (the “Committee”) and the Committee may delegate its responsibilities for administering the Incentive Plan to an award committee or one of our executive officers for incentive awards that are not designated as qualified performance-based compensation under Section 162(m) of the Code. Participation in the Incentive Plan will be limited to our full-time exempt employees (including officers) and those of our subsidiaries who are selected for participation in the Incentive Plan by the Committee. Unless the Committee determines otherwise, the performance period for which the performance goals will be measured will be our fiscal year.

For any incentive award under the Incentive Plan designated to qualify as qualified performance-based compensation under Section 162(m) of the Code, the performance goals will be based on pre-established, objective business criteria and will be set forth in writing by the Committee within the period required under Section 162(m) of the Code. The relevant business criteria for which performance goals may be based are set forth in the Incentive Plan. Performance goals need not be uniform as among participants.

Generally, a participant earns an incentive award under the Incentive Plan for a performance period based on the level of achievement of the performance goals established by the Committee; however, the Committee will have the discretion to (i) with respect to incentive awards that are designated as qualified performance-based compensation under Section 162(m) of the Code, reduce an incentive award that would otherwise be payable to one or more participants and (ii) with respect to incentive awards that are not designated as qualified performance-based compensation under Section 162(m) of the Code, reduce or increase an incentive award that would otherwise be payable to one or more participants. The Committee will certify and announce the awards that will be made to each participant as soon as practicable following the final determination of the financial results for the relevant performance period. The Incentive Plan provides that the maximum award payable to any participant for any fiscal year is $3,000,000.

Unless the Committee determines otherwise, no participant will have any right to receive payment of an incentive award under the Incentive Plan for a performance period unless the participant remains employed with the Company through the date that the award is paid.

The Plan will continue until terminated by the Board or the Committee. The Board or the Committee may at any time amend (in whole or in part), suspend or terminate the Incentive Plan; provided, however, that the Board or the Committee may not amend or modify the Incentive Plan without stockholder approval if such approval is required by Section 162(m) of the Code. The Incentive Plan became effective as of January 1, 2015.

On March 4, 2015, the Committee determined the employees who will be eligible to participate in the Incentive Plan for the 2015 fiscal year, the performance goals for which performance will be measured and the weighting of such performance goals, and the minimum, target and maximum incentive award that may be paid out to participants based on the level of achievement of the applicable performance goals. Incentive awards are conditioned on the Company's stockholders approval of the material terms of the performance goals under the Incentive Plan for the purposes of Section 162(m) of the Code at the Company's 2015 Annual Meeting of Stockholders, so that such incentive awards may be made under the Incentive Plan that qualify as qualified performance-based compensation under Section 162(m) of the Code. The amounts payable under the Incentive Plan for the 2015 fiscal year cannot be determined until after the 2015 fiscal year is completed and achievement of the various performance goals are determined.

The table below sets forth the threshold, target, and maximum payment amounts that are potentially payable under the Incentive Plan to our current named executive officers for the 2015 fiscal year if the stockholders approve the material terms of the performance goals under Incentive Plan for the purposes of Section 162(m) of the Code at the 2015 Annual Meeting of Stockholders. If the stockholders do not approve the material terms of the performance goals under the Incentive Plan for the purposes of Section 162(m) of the Code at the 2015 Annual Meeting of Stockholders, such payment amounts for the named executive officers will not be payable. In addition, the table below lists the aggregate amounts that are potentially payable for the 2015 fiscal year at the threshold, target, and maximum levels under the Incentive Plan for all of our executive officers (including our current named executive officers) and non-executive officer employee group, which payments are also conditioned on stockholder approval of the material terms of performance goals under the Incentive Plan for the purposes of Section 162(m) of the Code at the 2015 Annual Meeting of Stockholders.

Name	**Threshold ($)**	**Target ($)**	**Maximum ($)**
Susan N. Story	$ 290,000	$ 800,000	$ 1,600,000
Linda Sullivan	$ 128,814	$ 355,350	$ 710,700
Walter J. Lynch	$ 147,016	$ 405,562	$ 811,124
Michael Sgro	$ 67,969	$ 187,500	$ 375,000
Loyd Warnock	$ 67,077	$ 185,040	$ 370,080
Executive Group(1)	$ 1,271,749	$ 3,508,274	$ 7,016,548
Non Executive Officer Employee Group	$ 9,339,279	$25,723,209	$51,446,418
Total	$10,611,028	$29,231,483	$58,462,966

(1) Includes the named executive officers above.

The above description of the Incentive Plan does not purport to be complete and is qualified in its entirety by the full text of the Incentive Plan, which is attached hereto as Exhibit 10.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description of Exhibit
10.1	American Water Works Company, Inc. Annual Incentive Plan

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Date: March 10, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.1	American Water Works Company, Inc. Annual Incentive Plan

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

AMERICAN WATER WORKS COMPANY, INC.

ANNUAL INCENTIVE PLAN

AMERICAN WATER WORKS COMPANY, INC.

ANNUAL INCENTIVE PLAN

1. Purpose

The purpose of the Plan is to give eligible full-time exempt employees an annual opportunity to earn a cash incentive award that recognizes and rewards their contributions to the Company's success. To this end, the Plan provides a means of annually rewarding Participants based on the performance of the Company, as a whole or through a subsidiary, and, where appropriate, on a Participant's personal performance. The Plan also provides the Committee with the ability to make incentive awards designated as "qualified performance-based compensation" under Code section 162(m). All capitalized terms are as defined in Section 2. The Board adopted this Plan on March 4, 2015, effective as of January 1, 2015.

2. Definitions

(a) *"Award"* shall mean the amount of the incentive award (if any) that is earned by a Participant under the Plan for any Performance Period.

(b) "*Award Percentages*" shall mean the applicable minimum, target and maximum percentage of annual base salary that a Participant would be eligible to earn as an Award based on the level of achievement of the Performance Goals for the Performance Period, which Award Percentages shall be set by the Committee at the time the Performance Goals for the Performance Period are set; provided, that, if a Participant (other than Participants eligible to receive an Award designated as "qualified performance-based compensation") held more than one position during the Performance Period, then the Committee may designate different Award Percentages with respect to each position and the Award will be pro-rated to reflect the period during which such Participant had each Award Percentage (based on the number of days during the Performance Period the Participant held each position).

(c) *"Board"* shall mean the Company's Board of Directors as constituted from time to time.

(d) *"Code"* shall mean the Internal Revenue Code of 1986, as amended or any successor statute thereto and the regulations promulgated thereunder.

(e) *"Committee"* shall mean the Compensation Committee of the Board. With respect to the administration of Awards designated as "qualified performance-based compensation," the Committee shall consist of two or more persons appointed by the Board, all of whom shall be "outside directors" as defined under Code section 162(m). With respect to Awards not designated as "qualified performance-based compensation," the Committee may delegate its responsibilities for administering the Plan to an award committee or an Executive Officer as it deems appropriate; provided that it may not delegate its responsibilities under the Plan relating to Executive Officers or its authority to amend or terminate the Plan.

(f) *"Company"* shall mean American Water Works Company, Inc. or any successor corporation.

(g) “*Employee*” shall mean an employee of the Employer (including officers), but excluding any individual (i) employed in a casual or temporary capacity (i.e., those hired for a specific job of limited duration), (ii) characterized as “part-time” by the Employer, (iii) classified as a “non-exempt” employee eligible for overtime compensation under the Fair Labor Standards Act of 1938, (iv) whose terms of employment are governed by a collective bargaining agreement that does not provide for participation in this Plan, (v) characterized as a “leased employee” within the meaning of Code section 414, or (vi) classified by the Employer as a “contractor” or “consultant,” no matter how characterized by the Internal Revenue Service, other governmental agency or a court. Any change of characterization or classification of an individual by any court, government agency (including, but not limited to, the Internal Revenue Service or U.S. Department of Labor), or arbitrator shall have no effect upon the characterization or classification of an individual as an Employee for purposes of this Plan, unless the Committee determines otherwise.

(h) “*Employer*” shall mean the Company and each of its subsidiaries.

(i) “*Executive Officer*” shall mean the executive officers of the Company as defined in the Securities Exchange Act of 1934, as amended, and as determined by the Committee in its sole discretion.

(j) “*Participant*” for any Performance Period, shall mean an Employee designated by the Committee to participate in the Plan. Only those Employees who are designated as Participants for a Performance Period shall be eligible to participate in the Plan for such Performance Period.

(k) “*Performance Goals*” for any Performance Period, shall mean: (i) For Awards designated as “qualified performance-based compensation” pursuant to Section 5, the performance goals of the Company, as specified by the Committee, based on one or more of the following objective criteria: (A) diluted earnings per share, (B) environmental compliance, (C) safety performance, (D) service quality, (E) customer satisfaction, (F) stock price, (G) earnings per share, (H) price-earnings multiples, (I) net earnings, (J) operating earnings, (K) revenue, (L) number of days sales outstanding in accounts receivable, (M) productivity, (N) margin, (O) EBITDA (earnings before interest, taxes, depreciation and amortization), (P) net capital employed, (Q) return on assets, (R) stockholder return, (S) return on equity, (T) return on capital employed, (U) net income to shares of Company stock, (V) growth in assets, (W) unit volume, (X) sales, (Y) cash flow, (Z) market share, (AA) relative performance to a comparison group designated by the Committee, and/or (BB) strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, customer growth, geographic business expansion goals, cost targets or goals relating to acquisitions or divestitures. Any criteria used may be measured, as applicable, (I) in absolute terms, (II) in relative terms (including but not limited to, the passage of time and/or against other companies or financial metrics), (III) on a per share and/or share per capita basis, (IV) against the performance of the Company and its subsidiaries as a whole or against the Company or one or more particular subsidiary, entity, segment, operating unit or product of the Company, or any combination thereof, and /or (V) on a pre-tax or after-tax basis, or (ii) For Awards not designated as “qualified performance-based compensation” pursuant to Section 5, the performance goals may be based on one or more of the objective criteria set forth in clause (i) above and/or may take into account any other factors deemed appropriate by the Committee in its sole discretion.

(l) “*Performance Period*” shall mean the fiscal year of the Company or any other period designated by the Committee with respect to which an Award may be earned.

(m) “*Plan*” shall mean this American Water Works Company, Inc. Annual Incentive Plan, as from time to time amended and in effect.

3. Eligibility

Subject to the limitations contained in this Section 3, all Employees of the Employer are eligible to participate in the Plan. The Committee shall designate which Employees shall participate in the Plan for each Performance Period and only those Employees designated by the Committee to participate in the Plan for the Performance Period shall be eligible to participate for such Performance Period. To be eligible to receive an Award with respect to any Performance Period, an Employee must be actively employed by the Employer on the day on which the Award payout for a Performance Period is made (except as provided in Section 8). Newly hired Employees or Employees promoted/transferred to an eligible/higher class shall be eligible to receive a prorated Award for a Performance Period, provided that their date of hire (or promotion/transfer) occurs on or before September 30, or such other date as the Committee may specify.

4. Administration

The administration of the Plan shall be consistent with the purpose and the terms of the Plan. The Plan shall be administered by the Committee. The Committee shall have full authority to establish the rules and regulations relating to the Plan, to interpret the Plan and those rules and regulations, to select Participants in the Plan, to determine each Participant’s Award Percentages, to approve all of the Awards, to decide the facts in any case arising under the Plan and to make all other determinations, including factual determinations, and to take all other actions necessary or appropriate for the proper administration of the Plan, including the delegation of such authority or power, where appropriate; provided, however, that the Committee shall not be authorized to increase the amount of the Award payable to a Participant that would otherwise be payable pursuant to the terms of the Plan to the extent the Award is designated as “qualified performance-based compensation” under Code section 162(m). All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

All Awards shall be made conditional upon the Participant’s acknowledgement, in writing or by acceptance of the Award, that all decisions and determination of the Committee shall be final and binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under such Award. Awards need not be uniform as among Participants. The Committee’s administration of the Plan, including all such rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Employer and all employees of the Employer, including the Participants and their respective beneficiaries.

5. Determination of Awards

(a) *Setting Award Percentages and Performance Goals.*

(i) To the extent Awards are designated as “qualified performance-based compensation” under Code section 162(m), Performance Goals and Award Percentages must be pre-established by the Committee. Performance Goals and Award Percentages are considered pre-established if established in writing not later than 90 days after the commencement of the period of service to which the Performance Goals relates. In no event will a Performance Goal and Award Percentage be considered pre-established if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed. To the extent Awards are not designated as “qualified performance-based compensation,” the Committee may establish Performance Goals and Award Percentages for Participants at such time or times as the Committee determines in its sole discretion. Subject to the requirements of this Section 5(a)(i), the Performance Goals and Award Percentages established by the Committee may be (but need not be) different for each Performance Period and different Performance Goals and Award Percentages may be applicable to different Participants.

(ii) The Committee shall determine and shall reflect in its minutes: (A) the Employees who shall be Participants during the Performance Period, (B) the Performance Goal or Goals for the Performance Period (and how they are weighted, if applicable) and (C) each Participant’s Award Percentages. The Company shall notify each Participant of the Participant’s Award Percentages and the applicable Performance Goals for the Performance Period.

(iii) To the extent permitted by Code section 162(m), if applicable, in setting the Performance Goals within the period prescribed in Section 5(a)(i), the Committee may at such time also provide that the achievement of the Performance Goals will be determined without regard to the negative or positive effect of certain events, including for one or more of the following items: asset write-downs; litigation or claim judgments or settlements; changes in accounting principles; changes in tax law or other laws affecting reported results; changes in commodity prices; severance, contract termination, and other costs related to exiting, modifying or reducing any business activities; costs of, and gains and losses from, the acquisition, disposition, or abandonment of businesses or assets; gains and losses from the early extinguishment of debt; gains and losses in connection with the termination or withdrawal from a pension plan; stock compensation costs and other non-cash expenses; any extraordinary non-recurring items as described in applicable Accounting Principles Board opinions or Financial Accounting Standards Board statements or in management’s discussion and analysis of financial condition and results of operation appearing in the Company’s annual report to stockholders for the applicable year; or any other specified non-operating items as determined by the Committee in setting Performance Goals.

(b) *Earning An Award*. Generally, a Participant earns an Award for a Performance Period based on the level of achievement of the Performance Goals established by the

Committee for that Performance Period. A Participant will receive no Award if the level of achievement of all Performance Goals is below the minimum required to earn an Award for the applicable Performance Period, as specified by the Committee at the time the Performance Goals are established. No Participant may earn an Award that is greater than the maximum Award amount set forth in Section 5(c). Notwithstanding anything to the contrary in the Plan, in determining the actual Award that is payable to a Participant, (i) with respect to Awards designated as "qualified performance-based compensation" under Code section 162(m), the Committee, in its sole discretion, may reduce the Award payable to an amount below the amount that would otherwise be payable based on the level of achievement of the Performance Goals and (ii) with respect to Awards not designated as "qualified performance-based compensation" under Code section 162(m), the Committee, in its sole discretion, may reduce or increase the Award payable below or above the amount that would otherwise be payable based on the level of achievement of the Performance Goals

(c) *Maximum Award Amount.* The maximum Award payable to any Participant for any fiscal year shall not exceed $3,000,000.

(d) *Special Rules for Awards Designated As Qualified Performance-Based Compensation.* To the extent Awards are designated as "qualified performance-based compensation," the Awards shall be based on Performance Goals for each Performance Period that shall satisfy the requirements for "qualified performance-based compensation" under Code section 162(m), including the requirement that the achievement of the Performance Goals be substantially uncertain at the time they are established and that the Performance Goals be objective and established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the Performance Goals have been met. To the extent that Awards designated as "qualified performance-based compensation" under Code section 162(m) are made, no such Award may be made as an alternative to any other award that is not designated as "qualified performance-based compensation" but instead must be separate and apart from all other awards made. To the extent an Award is designated as "qualified performance-based compensation," the Committee is authorized to reduce the Award payable to the applicable Participant for any Performance Period based upon its assessment of personal performance or other factors, but not to increase the Award beyond the amount that is payable as a result of the level of achievement of the Performance Goals for such Performance Period, as certified by the Committee. Any reduction of an Award payable to a Participant with respect to an Award designated as "qualified performance-based compensation" shall not result in an increase in the Award payable to any other Participant with respect to an Award designated as "qualified performance-based compensation."

6. Changes to the Award Percentages

The Committee may at any time prior to the final determination of Awards change the Award Percentages of any Participant or assign different Award Percentages to a Participant to reflect any change in the Participant's responsibility level or position during the course of the Performance Period; provided, however, that no such changes may be made with respect to Awards that are designated as "qualified performance-based compensation" under Code section 162(m).

7. Payment of Awards

The Committee shall certify and announce the actual Awards that will be paid to each Participant as soon as practicable following the final determination of the Company's financial results for the relevant Performance Period. Subject to the provisions of Section 8, payment of the actual Awards certified by the Committee shall normally be made, in a single lump sum cash payment as soon as practicable following the Committee certification, but in any event, such Award shall be paid on or after January 1 of the year following the year in which the Performance Period ends, but no later than March 15 of the year following the year in which the Performance Period ends.

8. Limitations on Rights to Payment of Awards

(a) *Employment.* Unless the Committee determines otherwise, no Participant shall have any right to receive payment of an Award under the Plan for a Performance Period unless the Participant remains in the employ of the Employer through the date that Award is paid.

(b) *Accelerated Payment.* In no event will payment be made to a Participant with respect to an Award designated as "qualified performance-based compensation" or, unless the Committee determines otherwise, to any other Participant with respect to any other Award, prior to the end of the Performance Period to which it relates.

9. Amendment, Suspension or Termination of the Plan

The Plan shall continue until terminated by the Board or the Committee. The Board or the Committee may at any time amend (in whole or in part), suspend or terminate this Plan; provided, however, that the Board or the Committee shall not amend or modify the Plan without stockholder approval if such approval is required by Code section 162(m). No such amendment which adversely affects any Participant's rights to or interest in an Award earned prior to the date of the amendment shall be effective unless the Participant shall have agreed thereto. If Awards are intended as "qualified performance-based compensation" under Code section 162(m), the Plan must be reapproved by the Company's stockholders no later than the first stockholders' meeting that occurs in the fifth year following the year in which the stockholders previously approved the material terms of the performance goals under the Plan, if Awards after such stockholders' meeting are to be made as "qualified performance-based compensation" under Code section 162(m) and if required by Code section 162(m).

10. Miscellaneous Provisions

(a) *No Employment Right.* This Plan is not a contract between the Employer and the Employees or the Participants. Neither the establishment of this Plan, nor any action taken hereunder, shall be construed as giving any Employee or any Participant any right to be retained in the employ of the Employer. The Company is under no obligation to continue the Plan. Nothing contained in the Plan shall limit or affect in any manner or degree the normal and usual powers of management, exercised by the officers and the Board or committees thereof, to change the duties or the character of employment of any employee of the Employer or to remove the individual from the employment of the Employer at any time, all of which rights and powers are expressly reserved.

(b) *Code Section 409A.* The Plan is intended to comply with the short-term deferral rule set forth in the regulations under Code section 409A in order to avoid application of Code section 409A to the Plan. If, and to the extent that, any payment under this Plan is deemed to be deferred compensation subject to the requirements of Code section 409A, this Plan shall be administered so that such payments are made in accordance with the requirements of Code section 409A. If an Award is subject to Code section 409A, (i) payments shall only be made in a manner and upon an event permitted under Code section 409A, (ii) payments to be made upon a termination of employment shall only be made upon a "separation from service" under Code section 409A, and (iii) in no event shall a Participant, directly or indirectly, designate the calendar year in which a payment is made except in accordance with Code section 409A. Any Award under the Plan that is subject to Code section 409A and that is to be paid to a key employee (as defined below) upon separation from service shall be administered so that any payment with respect to such Award shall be postponed for six months following the date of the Participant's separation from service, if required by Code section 409A. If a payment is delayed pursuant to Code section 409A, the payment shall be paid within 30 days after the end of the six-month period. If the Participant dies during such six-month period, any postponed amounts shall be paid within 90 days of the Participant's death. The determination of key employees, including the number and identity of persons considered key employees and the identification date, shall be made by the Committee or its delegate each year in accordance with Code section 416(i) and the "specified employee" requirements of Code section 409A. Notwithstanding anything to the contrary in this Plan, each Participant shall be solely responsible for the tax consequences of Awards under this Plan, and in no event shall the Company nor any other Employer have any responsibility or liability if any Award does not meet the applicable requirements of Code section 409A. Although the Company intends to administer the Plan to prevent taxation under Code section 409A, the Company does not represent nor warrant that the Plan or any Award complies with any provision of federal, state, local or other tax law.

(c) *No Assignment.* A Participant's right and interest under the Plan may not be assigned or transferred and any attempted assignment or transfer shall be null and void and shall extinguish, in the Company's sole discretion, the Employer's obligation under the Plan to pay Awards with respect to the Participant.

(d) *Unfunded Plan.* The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund, or to make any other segregation of assets, to assure payment of Awards.

(e) *Company Policies*. As a condition of participation in the Plan, each Participant agrees to be subject to any compensation, clawback and recoupment policies that may be applicable to the Participant as an Employee of the Employer, as in effect from time to time and as approved by the Board or a duly authorized committee thereof, whether or not approved before or after the effective date of the Plan.

(f) *Stockholder Approval*. Notwithstanding any provision of the Plan to the contrary, Awards designated as "qualified performance-based compensation," if made prior to stockholder approval of the material terms of the performance goals under the Plan at the Company's 2015 annual stockholders' meeting, will be made contingent upon, and subject to, stockholder approval of the material terms of the performance goals under the Plan at the Company's 2015 annual stockholders' meeting.

(g) *Withholding Taxes*. The Employer shall have the right to deduct from actual Awards paid any taxes or other amounts required by law to be withheld.

(h) *Compliance with 162(m)*. It is the intent of the Company that the Plan and Awards under the Plan designated as "qualified performance-based compensation" comply with the applicable provisions of Code section 162(m). To the extent that any legal requirement of Code section 162(m) as set forth in the Plan ceases to be required under Code section 162(m), that Plan provision shall cease to apply. Further, with respect to Awards intended to qualify as "qualified performance-based compensation, terms used in the Plan shall be interpreted in a manner consistent with Code section 162(m) and regulations thereunder (including Treasury Regulation section 1.162-27).

(i) *Governing Law*. The validity, construction, interpretation and effect of the Plan shall exclusively be governed by and determined in accordance with the law of the State of Delaware.

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AWK 8-K 2/26/2014

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): February 26, 2014

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

**1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)**

**(856) 346-8200
(Registrant's telephone number, including area code)**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On February 26, 2014, American Water Works Company, Inc. issued a press release announcing its financial results for the fourth quarter and year ended December 31, 2013. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

99.1 Press Release, dated February 26, 2014, issued by American Water Works Company, Inc.

Signature(s)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 26, 2014

By /s/ Susan N. Story
Susan N. Story
Senior Vice President and Chief Financial Officer

(Back To Top)

Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE
AMERICAN WATER

February 26, 2014

Edward Vallejo
Vice President, Investor Relations
856-566-4005
edward.vallejo@amwater.com

Maureen Duffy
Vice President, Communications
856-309-4546
maureen.duffy@amwater.com

AMERICAN WATER REPORTS 2013 YEAR-END AND FOURTH QUARTER RESULTS; YEAR MARKED BY GROWTH

- **Ongoing operations generated $2.9 billion in total operating revenue.**
- **Adjusted net income (a non-GAAP financial measure) for continuing operations totaled $394.0 million, or $2.20 per diluted common share for 2013, excluding an approximate $0.14 per share one-time charge associated with the completed debt tender offer. Net income including this one-time charge was $369.3 million, or $2.06 per diluted common share.**
- **Company executed growth strategy adding approximately 30,000 regulated customers and expanding market-based businesses.**
- **Company invested approximately $950 million to ensure reliable water service.**

VOORHEES, N.J., February 26, 2014 – American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded U.S. water and wastewater utility company, today reported solid results for the year and quarter ended Dec. 31, 2013.

“Before speaking about our results, I want to speak about recent events in West Virginia, which truly highlight the importance of the service we provide,” said Jeff Sterba, president and CEO of American Water. “We are extremely proud of how our people responded to the Freedom Industries chemical spill. From the onset, we provided approximately 95,000 customers with water for basic sanitation and fire protection, and bottled and bulk water for drinking, while dealing with the contamination issue. Working closely with federal and state health agencies and regulators in a massive sampling and testing program, we were able to lift the ‘Do Not Use’ order in stages over a five day period beginning on Jan. 13. Informed discussion on possible legislation and/or regulation to help keep such incidents from happening is essential. American Water has been and will continue to be fully engaged in these conversations because nothing matters more to us than providing safe, reliable water service to our communities and customers.”

“Achieving excellence in customer service is a key driver of our results and 2013 was another year of strong performance on all fronts,” continued Sterba. “We achieved our operations and maintenance efficiency rate goal, grew both our regulated and market-based businesses and completed a multi-year effort to upgrade our technology platforms.”

For the year, the company reported net income of $369.3 million, or $2.06 per diluted common share, including an approximate $0.14 per share one-time, after-tax charge related to the completed debt tender offer by American Water's finance subsidiary, American Water Capital Corp., recorded in October 2013. The company's adjusted net income (a non-GAAP financial measure) for continuing operations, excluding this one-time charge, was $394.0 million, or $2.20 per diluted common share, compared with net income for continuing operations of $374.3 million, or $2.11 per diluted common share, in 2012.

The company's capital expenditures for 2013 were approximately $950 million, compared to $983 million in the prior year. The company anticipates investing $5.8 billion over the next five years in the water and wastewater systems that provide reliability and quality to its customers.

In the year 2013, American Water added approximately 30,000 customers to its regulated customer base, which is more than in the past five years combined. Approximately 20,000 of these are wastewater customers. The expansion of wastewater services is a key part of American Water's long-term growth strategy.

Regulated Operations

For the year ending Dec. 31, 2013, American Water's Regulated Businesses' revenues increased by $29.5 million, or 1.1 percent, compared to the year ending Dec. 31, 2012. The increase in revenues was primarily due to rate increase authorizations, as well as by increased infrastructure surcharges and acquisitions, including the company's New York acquisitions in May 2012 and the Dale Service acquisition in the fourth quarter of 2013. These increases in revenues were partially offset by decreased customer demand driven by cooler, wetter weather conditions in 2013, as compared to the hot, dry weather conditions in 2012.

The Regulated Businesses' operation and maintenance (O&M) expense decreased $24.5 million, or 2.2 percent year-over-year. The regulated entities showed continued improvement in their O&M efficiency ratio (a non-GAAP measure). For the 12 months ended Dec. 31, 2013, the O&M efficiency ratio was 38.7 percent, compared to 40.1 percent for the same 12-month period in 2012.

American Water's Regulated Businesses continue to upgrade and maintain their water systems in 2013 investing approximately $950 million. In recognition of that investment, the company received and put into effect authorizations for additional annualized revenues from general rate cases of $15.5 million in 2013, and received authorization for additional annualized revenues of $26 million in Pennsylvania effective Jan. 1, 2014. The company also received $36.1 million in additional annualized revenues from infrastructure surcharges in several states during 2013. Since Jan. 1, 2014, additional annualized revenues of $13.1 million in infrastructure surcharges were granted to the company’s New York, New Jersey and Illinois subsidiaries. As of Feb. 21, 2014, the company was awaiting final orders for general rate cases in three states, requesting $58.4 million in total additional annual revenues. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary. All annualized revenue amounts are based on current usage.

“Providing safe and reliable water and wastewater service is our business, which is why we invest almost a billion dollars in capital improvements on an annual basis,” said Sterba. “We are planning to increase that needed investment in the next five years while increasing our efficiencies and managing our costs to ensure we strike the right balance between needed upgrades and the cost of providing reliable service.”

American Water’s Regulated Business added approximately 30,000 customers to its customer base through the acquisition of ten water and five wastewater systems in 2013. The company also continued to provide a reliable supply of water to the communities in shale enriched areas in Pennsylvania as well as to multiple energy companies and now has 34 points of interconnection in that area. Since 2014 began, the company has already announced three more acquisitions in California, Illinois and New York.

Market-Based Operations

The company’s Market-Based Businesses’ revenues decreased by $4.9 million for the year compared to 2012. The decrease was mainly due to lower revenues from the termination of certain contracts in the company’s Contract Services Group, as well as decreases in capital projects in the company’s Military Services Group contracts as compared to the prior year. These decreases were offset by higher revenues in the company’s Homeowner Services Group and price redeterminations for several of the company’s military contracts. The Market-Based Business’ O&M expense decreased $12.6 million, or 4.5 percent, for the year as compared to the previous year.

American Water’s Market-Based Businesses continue to grow. The company recently announced its tenth contract with the U.S. military at Hill Air Force Base in Utah, and approximately $200 million of already awarded infrastructure projects will be executed in the next three years on the other military installations for which American Water provides service. The company’s homeowner services business, American Water Resources, also grew via geographic expansion and additional service offerings. Beyond residential customers, American Water Resources announced municipal partnerships with New York City, Nashville and Houston in 2013, and currently has nearly 700,000 customers and 1.25 million customer contracts.

Quarterly Dividend

In recognition of the company’s financial performance, the board of directors declared, during the fourth quarter of 2013, a quarterly cash dividend of $0.28 per common share, payable on Mar. 3, 2014, to all shareholders of record as of Feb. 3, 2014.

2014 Earnings Guidance

American Water reaffirmed the 2014 earnings guidance issued on Dec. 17, 2013. The company estimates its 2014 ongoing earnings to be in the range of $2.35 to $2.45 per share, excluding the impact of the Freedom Industries chemical spill in West Virginia, which is estimated to be $0.02 per share through Feb. 26, 2014. The company’s earnings forecasts are subject to numerous risks such as extreme weather, costs associated with the company’s SAP implementation and other factors described under “Forward-Looking Statements” below and under “Risk Factors” in its annual and quarterly reports.

Non-GAAP Financial Measures

This press release includes a presentation of adjusted net income and adjusted earnings per share (EPS). These items are derived from American Water’s consolidated financial information but are not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted net income and adjusted EPS are defined, respectively, as GAAP net income and GAAP diluted earnings per common share excluding the nonrecurring charge recorded in October 2013 of $24.8 million associated with the company’s tender offer. These items constitute “non-GAAP financial measures” under Securities and Exchange Commission (SEC) rules. These non-GAAP financial measures supplement the company’s GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that these adjustments provide the company and its investors with an indication of American Water’s baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustments to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company’s performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes. This item is derived from American Water’s consolidated financial information but is not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). The item constitutes a “non-GAAP financial measure” under Securities and Exchange Commission (SEC) rules. This non-GAAP financial measure supplements the company’s GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, which involve items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below is a table that reconciles the non-GAAP financial measures to the most directly comparable GAAP financial measures.

Year-End 2013 Earnings Conference Call

The year-end 2013 earnings conference call will take place on Thursday, Feb. 27, 2014 at 9 a.m. Eastern Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company's website at www.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through March 6, 2014, by dialing 303-590-3030 for U.S. and international callers. The access code for replay is 4662798. The online archive of the webcast will be available through March 28, 2014, by accessing the Investor Relations page of the company's website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs approximately 6,600 dedicated professionals who provide drinking water, wastewater and other related services to an estimated 14 million people in more than 40 states and parts of Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events and may relate to, among other things, its future financial performance, including earnings, growth and portfolio optimization strategies, its ability to finance current operations and growth initiatives, trends in its industry, regulatory or legal developments or rate adjustments. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action related to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal and intercoastal flooding; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations and the growth of its business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on the company's current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase its cost and funding requirements; migration of customers into or out of its service territories; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; the incurrence of impairment charges; labor actions including work stoppages and strikes; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual, quarterly and current SEC filings. The company undertakes no duty to update any forward-looking statement.

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Income (Unaudited)
In thousands except per share data

	Three Months Ended December 31,		Years Ended December 31,	
	2013	2012	2013	2012
Operating revenues	$ 712,260	$680,913	$2,901,858	$2,876,889
Operating expenses				
Operation and maintenance	333,591	357,333	1,312,724	1,350,040
Depreciation and amortization	103,969	100,851	407,718	381,503
General taxes	58,481	55,948	234,642	221,212
(Gain) loss on asset dispositions and purchases	365	(182)	925	(839)
Total operating expenses, net	496,406	513,950	1,956,009	1,951,916
Operating income	215,854	166,963	945,849	924,973
Other income (expenses)				
Interest, net	(74,904)	(74,794)	(308,164)	(310,794)
Loss on extinguishment of debt	(40,583)	—	(40,583)	—
Allowance for other funds used during construction	2,744	2,419	12,639	15,592
Allowance for borrowed funds used during construction	1,275	1,829	6,377	7,771
Amortization of debt expense	(1,874)	(1,409)	(6,603)	(5,358)
Other, net	(2,564)	(684)	(4,045)	(926)
Total other income (expenses)	(115,906)	(72,639)	(340,379)	(293,715)
Income from continuing operations before income taxes	99,948	94,324	605,470	631,258
Provision for income taxes	40,255	40,100	236,206	257,008
Income from continuing operations	59,693	54,224	369,264	374,250
Income (loss) from discontinued operations, net of tax	—	1,254	—	(16,180)
Net income	$ 59,693	$ 55,478	$ 369,264	$ 358,070
Basic earnings per common share: (1)				
Income from continuing operations	$ 0.33	$ 0.31	$ 2.08	$ 2.12
Income (loss) from discontinued operations, net of tax	$ —	$ 0.01	$ —	$ (0.09)
Net income	$ 0.33	$ 0.31	$ 2.08	$ 2.03
Diluted earnings per common share: (1)				
Income from continuing operations	$ 0.33	$ 0.30	$ 2.06	$ 2.11
Income (loss) from discontinued operations, net of tax	$ —	$ 0.01	$ —	$ (0.09)
Net income	$ 0.33	$ 0.31	$ 2.06	$ 2.01
Average common shares outstanding during the period:				
Basic	178,237	176,907	177,814	176,445
Diluted	179,469	178,113	179,056	177,671
Dividends per common share	$ 0.28	$ 0.25	$ 1.12	$ 0.98

(1) Amounts may not sum due to rounding

AMERICAN WATER REPORTS 2013 YEAR-END RESULTS

American Water Works Company, Inc. and Subsidiary Companies

Condensed Consolidated Balance Sheet Information (Unaudited)
In thousands

	December 31, 2013	December 31, 2012
Cash and cash equivalents	$ 26,964	$ 24,433
Other current assets	523,426	475,014
Total property, plant and equipment	12,391,162	11,739,364
Total regulatory and other long-term assets	2,127,981	2,480,165
Total Assets	$15,069,533	$14,718,976
Short-term debt	$ 630,307	$ 269,985
Current portion of long-term debt	14,174	115,919
Other current liabilities	591,052	608,928
Long-term debt	5,230,058	5,209,370
Total regulatory and other long-term liabilities	2,833,434	3,073,650
Contributions in aid of construction	1,042,704	996,136
Total stockholders' equity	4,727,804	4,444,988
Total Capitalization and Liabilities	$15,069,533	$14,718,976

Adjusted net income and EPS (A Non-GAAP, unaudited measure)
In thousands except per share data

	Year Ended December 31, 2013 Income	Year Ended December 31, 2013 Diluted Earnings Per Share
Net income per GAAP	$369,264	$ 2.06
Add: After-tax impact of tender offer loss on debt extinguishment (a)	24,756	0.14
Adjusted net income	$394,020	$ 2.20

(a) Includes repurchase premium, transaction fees and write-off of unamortized debt issuance costs

Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	Years Ended December 31, 2013	Years Ended December 31, 2012
Total Operation and Maintenance Expenses	$1,312,724	$1,350,040
Less:		
Operation and maintenance expenses—Market-Based Operations	264,253	276,809
Operation and maintenance expenses—Other	(56,973)	(56,755)
Total Regulated Operation and Maintenance Expense	1,105,444	1,129,986
Less:		
Regulated purchase water expense (a)	111,119	110,173
Allocation of non-Operation and maintenance expense	34,635	35,067
Adjusted Regulated Operation and Maintenance Expenses	$ 959,690	$ 984,746
Total Operating Revenues	$2,901,858	$2,876,889
Less:		
Operating revenues—Market-Based Operations	325,463	330,329
Operating revenues—Other	(17,523)	(17,874)
Total Regulated operating revenues	2,593,918	2,564,434
Less:		
Regulated purchase water revenues (a)	111,119	110,173
Adjusted Regulated Operating Revenues	$2,482,799	$2,454,261

Regulated Operations and Maintenance Efficiency Ratio	38.7%	40.1%

(a) Calculation assumes purchased water revenues approximate purchased water expenses.

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AWK 8-K 2/24/2015

Section 1: 8-K (8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 24, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On February 24, 2015, American Water Works Company, Inc. issued a press release announcing its financial results for the fourth quarter and year ended December 30, 2014. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

The information in this Current Report, including Exhibit 99.1, is being furnished and shall not be incorporated by reference into any registration statement or other document filed pursuant to the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit	Description
99.1	Press Release, dated February 24, 2015, issued by American Water Works Company, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

Dated: February 24, 2015

By: /s/ Linda G. Sullivan
Linda G. Sullivan
Senior Vice President, Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

PRESS RELEASE
AMERICAN WATER

Feb. 24, 2015

Edward Vallejo
Vice President, Investor Relations
856-566-4005
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Maureen Duffy
Vice President, Communications
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AMERICAN WATER REPORTS STRONG 2014 FOURTH QUARTER AND YEAR-END RESULTS

- **Company had strong financial performance in 2014 with revenue up 4.6 percent to more than $3.0 billion and income from continuing operations up 16 percent to $430 million, or $2.39 per diluted common share. Adjusted income from continuing operations (a non-GAAP financial measure) was up 10 percent over 2013 to $436.8 million, or $2.43 per diluted share.**
- **Company continued to ensure reliable and affordable service, making $1 billion in investments while balancing customer rate impacts through continued O&M efficiency.**
- **Company affirmed 2015 earnings guidance from continuing operations in the range of $2.55 to $2.65 per diluted share.**

VOORHEES, N.J., Feb. 24, 2015 – American Water Works Company, Inc. (NYSE: AWK), the largest and most geographically diverse publicly traded U.S. water and wastewater utility company, today reported strong results for the fourth quarter and year ended Dec. 31, 2014.

“The people of American Water continued to execute on our strategy and achieved strong results in 2014,” said Susan Story, president and CEO of American Water. “With customers at the center of what we do, we made much-needed and prioritized infrastructure investments to ensure reliable service and meet water quality standards while leveraging technologies and increasing efficiencies to lessen the impact on what our customers pay.

“We continued to grow our business, completing 13 regulated acquisitions representing an additional 4,500 customers, and we have 11 announced, pending acquisitions representing about 21,500 additional new customers. In our Market-Based businesses, our Military Services Group won two competitively bid contracts with the U.S. Department of Defense, and our homeowner services business expanded into eight new states and received a notice of intent to be awarded an exclusive service line protection agreement with the Orlando Utilities Commission,” Story said.

Continuing Operations

For the year, the company reported income from continuing operations of $429.8 million, or $2.39 per diluted common share, compared with income from continuing operations of $370.8 million, or $2.07 per diluted common share, in 2013. Excluding the impact of the Freedom Industries chemical spill in West Virginia of $0.04 per diluted share in 2014 and the tender offer of $0.14 per diluted share in 2013, adjusted income from continuing operations (a non-GAAP financial measure) was $436.8 million, or $2.43 per diluted share, an increase of 10 percent over $2.21 per diluted share in 2013. This increase was mainly due to continued revenue growth in both the Regulated and Market-Based businesses and lower operating and interest expenses, partially offset by higher depreciation and taxes.

For the fourth quarter of 2014, the company reported income from continuing operations of $93.9 million, or $0.52 per diluted common share, compared to income from continuing operations of $61.1 million, or $0.34 per diluted common share, in the same quarter of the previous year. Excluding the impact of the tender offer of $0.14 per diluted share in 2013, adjusted income from continuing operations (a non-GAAP financial measure) was up $0.04 per diluted share, an increase of 8.3 percent mainly due to continued revenue growth in both the Regulated and Market-Based businesses, partially offset by higher depreciation expense.

The company's capital investment for 2014 was approximately $1 billion, up from $950 million in 2013. The company anticipates investing $6 billion over the next five years, with $5.2 billion aimed at improving the water and wastewater infrastructure that provides reliability and quality to customers.

Regulated Operations

For the quarter, American Water's Regulated Businesses' revenues increased by $5.2 million, or 0.8 percent, as compared to the same quarter in 2013. Operating revenues increased by $80.4 million, or 3.1 percent, for the year as compared to 2013. The increase in revenues was primarily due to rate authorizations and infrastructure and other surcharges, as well as revenues from acquisitions. The increases were partially offset by lower demand.

The Regulated Businesses' operation and maintenance (O&M) expense decreased $0.3 million, or 0.1 percent, for the fourth quarter of 2014, and increased $6.1 million, or 0.5 percent, for the year, compared to the same periods in 2013. The increased costs for the year were mainly due to increased production costs, the impact of the Freedom Industries chemical spill in West Virginia and increased uncollectible expense, largely offset by lower pension and other employee-related costs and operational efficiencies.

American Water continued its focus on operational efficiencies to help make capital investments more affordable for customers. For the year, the adjusted O&M efficiency ratio (a non-GAAP measure) was 36.7 percent, compared to 38.5 percent for 2013.

"Thanks to our continuous improvement measures and the hard work of our employees, we were able to increase our planned capital investment by an additional $100 million, for a total investment of $1 billion in needed upgrades to water and wastewater infrastructure in 2014, while continuing to deliver water for about a penny per gallon or less," said Story. "According to research from the Water Research Foundation and the Water Environment Research Foundation, every $1 million of investment equals five direct jobs and 11 indirect jobs, which means in addition to ensuring reliability and water quality for our customers, our total investment of $1 billion helped fuel about 16,000 jobs in the communities we serve."

As of Feb 20, the company received approximately $88.4 million in additional annualized revenues from general rate cases, step increases and infrastructure surcharges. This includes the Indiana Utility Regulatory Commission settlement agreement in the company's 2014 Indiana rate filing authorizing $5.1 million in additional revenues effective Jan. 29, 2015.

As of Feb. 20, the company was awaiting final orders and/or proposed settlements for general rate cases in four states, requesting approximately $91.1 million in total additional revenues and $2.4 million in infrastructure charges. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary. All revenue amounts are based on current usage.

The company continued to expand its customer base, completing 13 acquisitions within its service areas in seven states, adding approximately 4,500 customers. On Nov. 4, voters in three communities – Haddonfield, N.J., Arnold, Mo., and Russiaville, Ind. – approved referendums for American Water to purchase their water and/or wastewater assets. Following regulatory approval and financial close, these and several other pending acquisitions will add about 21,500 customers to the company's regulated footprint.

Market-Based Operations

For the quarter, Market-Based revenues increased by $20.0 million, or 24.8 percent, and increased $52.1 million, or 17.2 percent, for the year. The increase was mainly due to additional revenues from growth in the homeowner services business and construction activities in the company's Military Services Group. This increase was partially offset by portfolio optimization efforts, which decreased revenue from discontinued municipal and industrial contracts, as well as additional price redeterminations for some military contracts in 2013.

The Market-Based Businesses' O&M expense increased $17.0 million, or 25.0 percent, for the quarter and $48.8 million, or 20.3 percent, for the year. Higher costs were mainly due to an increase in operating supplies and services for construction projects for military contracts and additional repair costs in the homeowner services business due to an increased number of contracts. Also included in the 2013 fourth quarter and year-end results was the release of $3.8 million in loss contract reserves.

American Water's Market-Based Businesses continued to grow. The company's homeowner services business, American Water Resources, expanded its service line offerings into eight new states in 2014, continued to grow its New York City partnership, and also launched its exclusive program with Metro Water Services in Nashville. During the fourth quarter, American Water Resources received notice of intent by the Orlando Utilities Commission to be awarded an exclusive home warranty protection agreement for more than 230,000 customers. The program is expected to launch in the first half of 2015.

Discontinued Operations

In the fourth quarter of 2014, the company sold Terratec Environmental Ltd., a Canadian-based provider of residuals management services that was part of its Market-Based segment. The loss on sale and results of operations of the company have been classified as discontinued operations and represent a loss from discontinued operations of $0.04 per diluted share for the year.

Quarterly Dividend

On Dec. 12, 2014, in recognition of the company’s performance, the Board of Directors declared a quarterly cash dividend payment of $0.31 per share, payable on March 2, 2015, to all shareholders of record as of Feb. 9, 2015.

On Sept. 19, 2014, American Water’s Board of Directors declared a quarterly cash dividend payment of $0.31 per share, which was paid on Dec. 1, 2014, to all shareholders of record as of Nov. 10, 2014.

2015 Earnings Guidance

American Water affirmed its 2015 earnings guidance from continuing operations (a non-GAAP financial measure) to be in the range of $2.55 to $2.65 per diluted share. The company’s earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under “Forward-Looking Statements” below and under “Risk Factors” in its annual and quarterly reports filed with the SEC.

Anti-Dilution Share Repurchase Program

In February 2015, American Water’s Board of Directors authorized a common stock repurchase program (the “Program”) for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. The Program will allow the company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution. Under the Program, American Water may repurchase its common stock in the open market or through privately negotiated transactions. The Program will be conducted in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, and, in order to facilitate the repurchase of the company’s Common Stock under the Program, the company has also entered into a Rule 10b5-1 share repurchase plan with a broker. By having the Program administered through a Rule 10b5-1 plan, the company will be able to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the company may elect to amend or cancel the Program or the Rule 10b5-1 parameters at its discretion.

Non-GAAP Financial Measures

This press release includes a presentation of adjusted income from continuing operations and adjusted earnings per share (EPS) from continuing operations. These items are derived from American Water’s consolidated financial information but are not presented in its financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted income from continuing operations and adjusted EPS from continuing operations are defined, respectively, as GAAP income from continuing operations and GAAP diluted earnings per common share from continuing operations excluding the one-time impact of the Freedom Industries chemical spill in West Virginia and the company’s tender offer in 2013. These items constitute “non-GAAP financial measures” under Securities and Exchange Commission (SEC) rules. These non-GAAP financial measures supplement the company’s GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that this adjustment provides the company and its investors with an indication of American Water’s baseline performance excluding items that are not considered to be reflective of ongoing results. Management does not intend results excluding the adjustment to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the company’s performance. Accordingly, the measurements have limitations depending on their use.

This press release also includes a presentation of adjusted O&M efficiency ratio, which excludes from its calculation estimated purchased water revenues and purchased water expenses, the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill as well as the estimated impact of weather in the third quarter of 2014. This item is derived from American Water’s consolidated financial information but is not presented in its financial statements prepared in accordance with GAAP. The item constitutes a “non-GAAP financial measure” under SEC rules. This non-GAAP financial measure supplements the company’s GAAP disclosures and should not be considered an alternative to the GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company’s operating performance without giving effect to estimated purchased water revenues and purchased water expenses as well as the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, and the impact of the Freedom Industries chemical spill and weather during the quarter, which involve items that are not reflective of management’s ability to increase efficiency of the company’s regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company’s historical results, exclusive of estimated revenues and expenses related to purchased water and the allocable portion of non-O&M support services costs.

Set forth below are tables that reconcile the non-GAAP financial measures to the most directly comparable GAAP financial measures.

2014 Year-End and Fourth Quarter Earnings Conference Call

The 2014 fourth quarter and year-end earnings conference call will take place on Wednesday, Feb. 25, 2015, at 9 a.m. Eastern Time. Interested parties may listen over the Internet by logging on to the Investor Relations page of the company’s website at www.amwater.com. Presentation slides that will be used in conjunction with the earnings conference call are also available online at http://ir.amwater.com.

Following the earnings conference call, an audio archive of the call will be available through March 5, 2015, by dialing 1-412-317-0088 for U.S. and international callers. The access code for replay is 10059769. The online archive of the webcast and presentation slides will be available through March 25, 2015, by accessing the Investor Relations page of the company’s website located at www.amwater.com.

About American Water

Founded in 1886, American Water (NYSE: AWK) is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs approximately 6,400 dedicated professionals who provide drinking water, wastewater and other related services to an estimated 15 million people in more than 45 states and parts of Canada. More information can be found at www.amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, timing of the Orlando home warranty protection program launch, 2015 earnings guidance and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water’s current expectations and assumptions regarding future events. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions’ actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; the outcome of litigation and government action including as related to the Freedom Industries chemical spill in West Virginia; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal, intercoastal flooding and cooler than normal temperatures; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its technology systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies and attacks on its computer systems; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations; its ability to successfully expand its business, including, concession arrangements and agreements for the provision of water services to facilitate hydraulic fracking in shale regions; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; the effect of restrictive covenants or changes to credit ratings on the company’s current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase financing costs and funding requirements; migration of customers into or out of its service territories and the condemnation of its systems by municipalities using the power of eminent domain; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water’s business, please refer to American Water’s annual and quarterly SEC filings. The company undertakes no duty to update any forward-looking statement, except as otherwise required by the federal securities laws.

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Income (Unaudited)
In thousands except per share data

	Three Months Ended December 31,		Years Ended December 31,	
	2014	**2013**	**2014**	**2013**
Operating revenues	$ 731,378	$ 706,242	$ 3,011,328	$ 2,878,936
Operating expenses				
Operation and maintenance	345,487	326,228	1,349,864	1,289,081
Depreciation and amortization	105,686	103,715	424,084	406,717
General taxes	58,456	58,409	236,732	234,198
(Gain) loss on asset dispositions and purchases	(1,312)	95	(1,928)	624
Total operating expenses, net	508,317	488,447	2,008,752	1,930,620
Operating income	223,061	217,795	1,002,576	948,316
Other income (expenses)				
Interest, net	(75,145)	(74,904)	(297,818)	(308,164)
Loss on extinguishment of debt	—	(40,583)	—	(40,583)
Allowance for other funds used during construction	2,376	2,744	9,440	12,639
Allowance for borrowed funds used during construction	1,514	1,275	5,838	6,377
Amortization of debt expense	(2,055)	(1,874)	(7,026)	(6,603)
Other, net	(605)	(2,564)	(3,196)	(4,045)
Total other income (expenses)	(73,915)	(115,906)	(292,762)	(340,379)
Income from continuing operations before income taxes	149,146	101,889	709,814	607,937
Provision for income taxes	55,200	40,768	279,973	237,093
Income from continuing operations	93,946	61,121	429,841	370,844
Loss from discontinued operations, net of tax	(445)	(1,428)	(6,733)	(1,580)
Net income	$ 93,501	$ 59,693	$ 423,108	$ 369,264
Basic earnings per share:				
Income from continuing operations	$ 0.52	$ 0.34	$ 2.40	$ 2.08
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)	$ (0.04)	$ (0.01)
Net income	$ 0.52	$ 0.33	$ 2.36	$ 2.08(a)
Diluted earnings per share:				
Income from continuing operations	$ 0.52	$ 0.34	$ 2.39	$ 2.07
Loss from discontinued operations, net of tax	$ 0.00	$ (0.01)	$ (0.04)	$ (0.01)
Net income	$ 0.52	$ 0.33	$ 2.35	$ 2.06
Average common shares outstanding during the period				
Basic	179,150	178,237	178,888	177,814
Diluted	180,142	179,469	179,806	179,056
Dividends declared per common share	$ 0.31	$ 0.28	$ 1.24	$ 1.12

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

AMERICAN WATER REPORTS 2014 FOURTH QUARTER AND YEAR-END RESULTS

American Water Works Company, Inc. and Subsidiary Companies

Condensed Consolidated Balance Sheet Information (Unaudited)

In thousands

	December 31, 2014	December 31, 2013
Cash and cash equivalents	$ 23,080	$ 26,964
Other current assets	638,289	537,082
Total property, plant and equipment	13,029,296	12,388,354
Total regulatory and other long-term assets	2,440,291	2,127,981
Assets of discontinued operations	—	7,761
Total Assets	$ 16,130,956	$ 15,088,142
Short-term debt	$ 449,959	$ 630,307
Current portion of long-term debt	61,132	14,174
Other current liabilities	729,907	587,228
Long-term debt	5,448,245	5,230,058
Total regulatory and other long-term liabilities	3,451,250	2,852,043
Contributions in aid of construction	1,074,872	1,042,704
Liabilities of discontinued operations	—	3,824
Total stockholders' equity	4,915,591	4,727,804
Total Capitalization and Liabilities	$ 16,130,956	$ 15,088,142

Adjusted Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In thousands

	For the Years Ended December 31,	
	2014	2013
Total O&M expense	$ 1,349,864	$ 1,289,081
Less:		
O&M expense—Market-Based Operations	289,395	240,610
O&M expense—Other	(51,038)	(56,973)
Total Regulated O&M expense	1,111,507	1,105,444
Less:		
Regulated purchased water expense	121,301	111,119
Allocation of internal O&M costs	38,985	34,635
Impact of West Virginia Freedom Industries chemical spill	10,438	—
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)
Adjusted Regulated O&M expense (a)	$ 942,545	$ 961,377
Total Operating Revenues	$ 3,011,328	$ 2,878,936
Less:		
Operating revenues—Market-Based Operations	354,679	302,541
Operating revenues—Other	(17,680)	(17,523)
Total Regulated operating revenues	2,674,329	2,593,918
Less:		
Regulated purchased water expense*	121,301	111,119
Plus:		
Impact of West Virginia Freedom Industries chemical spill	1,012	—
Estimated impact of weather (mid-point of range)	16,785	15,625
Adjusted Regulated operating revenues (b)	$ 2,570,825	$ 2,498,424
Adjusted Regulated O&M efficiency ratio (a)/(b)	36.7%	38.5%

* Calculation assumes purchased water revenues approximate purchased water expenses.

AMERICAN WATER REPORTS 2014 FOURTH QUARTER AND YEAR-END RESULTS

Adjusted income from continuing operations and income from continuing operations per diluted common share (A Non-GAAP, unaudited measure)

In thousands except per share data

	Three Months Ended December 31,		Years Ended December 31,	
	2014	2013	2014	2013
Income from continuing operations	$ 93,946	$ 61,121	$ 429,841	$ 370,844
Add:				
After-tax impact of tender offer loss on debt extinguishment	—	24,756	—	24,756
After-tax impact of West Virginia Freedom Industries chemical spill	185	—	7,007	—
Adjusted income from continuing operations	$ 94,131	$ 85,877	$ 436,848	$ 395,600
Income from continuing operations per diluted common share	$ 0.52	$ 0.34	$ 2.39	$ 2.07
Add:				
After-tax impact of tender offer loss on debt extinguishment	—	0.14	—	0.14
After-tax impact of West Virginia Freedom Industries chemical spill	0	—	0.04	—
Adjusted income from continuing operations per diluted common share	$ 0.52	$ 0.48	$ 2.43	$ 2.21

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AWK 8-K 2/18/2015

Section 1: 8-K (FORM 8-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 18, 2015

American Water Works Company, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-34028

Delaware	**51-0063696**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

1025 Laurel Oak Road
Voorhees, NJ 08043
(Address of principal executive offices, including zip code)

(856) 346-8200
(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On February 18, 2015, the board of directors of American Water Works Company, Inc. (the “Company”) appointed Mr. Karl F. Kurz as an independent director of the Company, with a term expiring at the 2015 Annual Meeting of Stockholders. Mr. Kurz will serve on the finance and nominating/corporate governance committees of the board. In accordance with the board of directors’ compensation arrangement currently in effect Mr. Kurz will receive the prorated amount of the $75,000 annual retainer payable for the remainder of the current quarter, as well as reimbursement for expenses incurred in attending board and committee meetings. Mr. Kurz will also be paid, for his service until the 2015 Annual Meeting of Stockholders, 364 stock units, constituting his prorated share of his $85,000 annual equity compensation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 20, 2015	By: /s/ Michael A. Sgro Michael A. Sgro Senior Vice President, General Counsel and Secretary

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KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 29

Description of Filing Requirement:

Current Chart of Accounts

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX29_012916.

Kentucky American Water Company
Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	10130100	UPIS - Organization	301.1
1012	10130200	UPIS - Franchises	302.1
1012	10130320	UPIS - Land & Land Rights - Source of Supply	303.2
1012	10130330	UPIS - Land & Land Rights - Pumping	303.2
1012	10130340	UPIS - Land & Land Rights - Water Treatment	303.3
1012	10130350	UPIS - Land & Land Rights - Transmission & Distrib	303.4
1012	10130360	UPIS - Land & Land Rights - Admin & General	303.5
1012	10130410	UPIS - Struct & Imp - Source of Supply	304.2
1012	10130420	UPIS - Struct & Imp - Pumping	304.2
1012	10130430	UPIS - Struct & Imp - Water Treatment	304.3
1012	10130440	UPIS - Struct & Imp - Transmission & Distribution	304.4
1012	10130450	UPIS - Struct & Imp - Admin & General	304.5
1012	10130500	UPIS - Collect & Impounding	305.2
1012	10130600	UPIS - Lake & River & Other	306.2
1012	10130700	UPIS - Wells & Springs	307.2
1012	10130800	UPIS - Infiltration Galleries	308.2
1012	10130900	UPIS - Supply Mains	309.2
1012	10131000	UPIS - Power Generation Equipment	310.2
1012	10131020	UPIS - Boiler Plant Equipment	311.2
1012	10131110	UPIS - Pumping Equipment - Steam	311.2
1012	10131120	UPIS - Pumping Equipment - Electric	311.2
1012	10131130	UPIS - Pumping Equipment - Diesel	311.2
1012	10131140	UPIS - Pumping Equipment - Hydraulic	311.2
1012	10131150	UPIS - Pumping Equipment - Other	311.2
1012	10131152	UPIS - Pumping Equipment - Source of Supply	311.2
1012	10131153	UPIS - Pumping Equipment - Water Treatment	311.3
1012	10131154	UPIS - Pumping Equipment - Transmission & Distrib	311.4
1012	10132010	UPIS - Water Treatment Equipment	320.3
1012	10133000	UPIS - Distribution Reservoirs & Standpipes	330.4
1012	10133100	UPIS - Transmission & Distribution Mains	331.4
1012	10133200	UPIS - Fire Mains	331.4
1012	10133300	UPIS - Services	333.4
1012	10133410	UPIS - Meters	334.4
1012	10133420	UPIS - Meter Installations	334.4
1012	10133500	UPIS - Hydrants	335.4
1012	10133600	UPIS - Backflow Prevention	336.4
1012	10133910	UPIS - Other P/E - Intangible	339.1
1012	10133920	UPIS - Other P/E - Source of Supply	339.2
1012	10133930	UPIS - Other P/E - Water Treatment	339.3
1012	10133950	UPIS - Other P/E - Transmission & Distribution	339.4
1012	10134010	UPIS - Office Furniture & Equipment	340.5
1012	10134100	UPIS - Transportation Equipment	341.5
1012	10134200	UPIS - Stores Equipment	342.5
1012	10134300	UPIS - Tools-Shop-Garage Equipment	343.5
1012	10134400	UPIS - Laboratory Equipment	344.5
1012	10134500	UPIS - Power Operated Equipment	345.5

Kentucky American Water Company
Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	10134600	UPIS - Communication Equipment	346.5
1012	10134700	UPIS - Misc Equipment	347.5
1012	10134800	UPIS - Other Tangible Property	348.5
1012	10135100	UPIS - WW Organization	351.1
1012	10135200	UPIS - WW Franchises	352.1
1012	10135220	UPIS - WW Other Intangible	352.1
1012	10135320	UPIS - WW Land & Land Rights - Coll	353.2
1012	10135330	UPIS - WW Land & Land Rights - SPP	353.3
1012	10135340	UPIS - WW Land & Land Rights - TDP	353.4
1012	10135350	UPIS - WW Land & Land Rights - General	353.7
1012	10135420	UPIS - WW Struct & Imp - Coll	354.2
1012	10135430	UPIS - WW Struct & Imp - SPP	354.3
1012	10135440	UPIS - WW Struct & Imp - TDP	354.4
1012	10135450	UPIS - WW Struct & Imp - General	354.7
1012	10135520	UPIS - WW Pwr Gen Equipment - Col	355.2
1012	10135530	UPIS - WW Pwr Gen Equipment - SPP	355.3
1012	10135540	UPIS - WW Pwr Gen Equipment - TDP	355.4
1012	10135550	UPIS - WW Pwr Gen Equipment - RWT	355.5
1012	10135560	UPIS - WW Pwr Gen Equipment - RWD	355.6
1012	10136000	UPIS - WW Collection Sewers	360.2
1012	10136110	UPIS - WW Collecting Mains	361.2
1012	10136200	UPIS - WW Special Coll Struct	362.2
1012	10136300	UPIS - WW Services Sewer	363.2
1012	10136400	UPIS - WW Flow Measuring Device	364.2
1012	10136500	UPIS - WW Flow Measuring Install	365.2
1012	10137000	UPIS - WW Receiving Wells	370.3
1012	10137110	UPIS - WW Pump Equipment - Elect	371.3
1012	10137120	UPIS - WW Pump Equipment - Oth Pwr	371.3
1012	10138000	UPIS - WW - Transmission & D244Distribution Equip	380.4
1012	10138100	UPIS - WW Plant Sewers	381.4
1012	10138200	UPIS - WW Outfall Sewer Line	382.4
1012	10138910	UPIS - WW Oth Plant & Misc Equipment	389.1
1012	10138920	UPIS - WW Oth Plant & Misc Equipment - Coll	389.2
1012	10138930	UPIS - WW Oth Plant & Misc Equipment - SPP	389.3
1012	10138940	UPIS - WW Oth Plant & Misc Equipment - TDP	389.4
1012	10139000	UPIS - WW Office Furniture	390.7
1012	10139100	UPIS - WW Transportation Equipment	391.7
1012	10139200	UPIS - WW Stores Equipment	392.7
1012	10139300	UPIS - WW Tool Shop & Garage	393.7
1012	10139400	UPIS - WW Laboratory Equipment	394.7
1012	10139500	UPIS - WW Power Operated Equipment	395.7
1012	10139600	UPIS - WW Communication Equipment	396.7
1012	10139700	UPIS - WW Misc Equipment	397.7
1012	10139800	UPIS - WW Other Tangible Pl	398.7
1012	10190000	Reg Asset-AFUDC-Debt	101.
1012	10230100	Leased - Organization	301.1

Kentucky American Water Company
Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	10230320	Leased - Land & Land Rights - Source of Supply	303.2
1012	10230330	Leased - Land & Land Rights - Pumping	303.2
1012	10230340	Leased - Land & Land Rights - Water Treatment	303.3
1012	10230350	Leased - Land & Land Rights - Transmission & Distr	303.4
1012	10230360	Leased - Land & Land Rights - Admin & General	303.5
1012	10230410	Leased - Struct & Imp - Source of Supply	304.2
1012	10230420	Leased - Struct & Imp - Pumping	304.2
1012	10230430	Leased - Struct & Imp - Water Treatment	304.3
1012	10230440	Leased - Struct & Imp - Transmission & Distrib	304.4
1012	10230450	Leased - Struct & Imp - Admin & General	304.5
1012	10230500	Leased - Collect & Impounding	305.2
1012	10230600	Leased - Lake - River & Other	306.2
1012	10230900	Leased - Supply Mains	309.2
1012	10231000	Leased - Power Generation Equipment	310.2
1012	10231120	Leased - Pump Equipment Electric	311.2
1012	10232010	Leased - WT Equipment	320.3
1012	10233000	Leased - Distribution Reservoirs & Standpipes	330.4
1012	10233100	Leased - TD Mains	331.4
1012	10233300	Leased - Services	333.4
1012	10233410	Leased - Meters	334.4
1012	10233420	Leased - Meter Installations	334.4
1012	10233500	Leased - Hydrants	335.4
1012	10233950	Leased - Other P/E - Transmission & Distribution	339.4
1012	10234010	Leased - Office Furniture & Equipment	340.5
1012	10234100	Leased - Transportation Equipment	341.5
1012	10234200	Leased - Stores Equipment	342.5
1012	10234300	Leased - Tools-Shop-Garage Equipment	343.5
1012	10234400	Leased - Laboratory Equipment	344.5
1012	10234500	Leased - Power Operated Equipment	345.5
1012	10234600	Leased - Comm Equipment Not Class	346.5
1012	10234700	Leased - Misc Equipment	347.5
1012	10300000	Property Held Future	103.
1012	10400000	Utility Plant Purchased or Sold	104.
1012	10630100	CCNC Organization	301.1
1012	10630200	CCNC Franchises	302.1
1012	10630320	CCNC Land & Land Rights - Source of Supply	303.2
1012	10630330	CCNC Land & Land Rights - Pumping	303.2
1012	10630340	CCNC Land & Land Rights - Water Treatment	303.3
1012	10630350	CCNC Land & Land Rights - Transmssn & Distr	303.4
1012	10630360	CCNC Land & Land Rights - Adm & Gen	303.5
1012	10630410	CCNC Struct & Imp - Source of Supply	304.2
1012	10630420	CCNC Struct & Imp - Pumping	304.2
1012	10630430	CCNC Struct & Imp - Water Treatment	304.3
1012	10630440	CCNC Struct & Imp - Transmission & Distribution	304.4
1012	10630450	CCNC Struct & Imp - Admin & General	304.5
1012	10630500	CCNC Collect & Impounding	305.2

Kentucky American Water Company
Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	10630600	CCNC Lake - River & Other	306.2
1012	10630700	CCNC Wells & Springs	307.2
1012	10630800	CCNC Infiltration Galleries	308.2
1012	10630900	CCNC Supply Mains	309.2
1012	10631000	CCNC Power Generation Equipment	310.2
1012	10631020	CCNC Boiler Plant Equipment	311.2
1012	10631110	CCNC Pumping Equipment - Steam	311.2
1012	10631120	CCNC Pumping Equipment - Electric	311.2
1012	10631130	CCNC Pumping Equipment - Diesel	311.2
1012	10631140	CCNC Pumping Equipment - Hydraulic	311.2
1012	10631150	CCNC Pumping Equipment - Other	311.2
1012	10631152	CCNC Pumping Equipment - Source of Supply	311.2
1012	10631153	CCNC Pumping Equipment - Water Treatment	311.3
1012	10631154	CCNC Pumping Equipment - Transmssn & Distr	311.4
1012	10632010	CCNC - Water Treatment Equipment - Non-Media	320.3
1012	10633000	CCNC - Distribution Reservoirs & Standpipes	330.4
1012	10633100	CCNC - Transmssn & Distr Mains Not Classified	331.4
1012	10633200	CCNC Fire Mains	331.4
1012	10633300	CCNC Services	333.4
1012	10633410	CCNC Meters	334.4
1012	10633420	CCNC Meter Installations	334.4
1012	10633500	CCNC Hydrants	335.4
1012	10633600	CCNC Backflow Prevention	336.4
1012	10633910	CCNC Other P/E Intangible	339.1
1012	10633920	CCNC Other P/E - Source of Supply	339.2
1012	10633930	CCNC Other P/E - Water Treatment	339.3
1012	10633950	CCNC Other P/E - Transmission & Distribution	339.4
1012	10634010	CCNC Office Furniture & Equipment	340.5
1012	10634100	CCNC Transportation Equipment Not Classified	341.5
1012	10634200	CCNC Stores Equipment	342.5
1012	10634300	CCNC Tools-Shop-Garage Equipment	343.5
1012	10634400	CCNC Laboratory Equipment	344.5
1012	10634500	CCNC Power Operated Equipment	345.5
1012	10634600	CCNC Communication Equipment	346.5
1012	10634700	CCNC Misc Equipment	347.5
1012	10634800	CCNC Other Tangible Property	348.5
1012	10635320	CCNC WW Land & Land Rights - Coll	353.2
1012	10635330	CCNC WW Land & Land Rights - SPP	353.3
1012	10635340	CCNC WW Land & Land Rights - TDP	353.4
1012	10635350	CCNC WW Land & Land Rights - Gen	353.7
1012	10635420	CCNC WW Struct & Imp - Coll	354.2
1012	10635430	CCNC WW Struct & Imp - SPP	354.3
1012	10635440	CCNC WW Struct & Imp - TDP	354.4
1012	10635450	CCNC WW Struct & Imp - Gen	354.7
1012	10635520	CCNC WW Power Gen Equipment - Col	355.2
1012	10635530	CCNC WW Power Gen Equipment - SPP	355.3

Kentucky American Water Company
Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	10635540	CCNC WW Power Gen Equipment - TDP	355.4
1012	10635550	CCNC WW Power Gen Equipment - RWT	355.5
1012	10635560	CCNC WW Power Gen Equipment - RWD	355.6
1012	10636000	CCNC WW Collection Sewers	360.2
1012	10636110	CCNC WW Collecting Mains	361.2
1012	10636200	CCNC WW Special Coll Stru	362.2
1012	10636300	CCNC WW Services Sewer	363.2
1012	10636400	CCNC WW Flow Measuring De	364.2
1012	10636500	CCNC WW Flow Measuring In	365.2
1012	10637000	CCNC WW Receiving Wells	370.3
1012	10637110	CCNC WW Pump Equipment - Elect	371.3
1012	10637120	CCNC WW Pump Equipment - Oth Pwr	371.3
1012	10638000	CCNC WW TD Equipment	380.4
1012	10638100	CCNC WW Plant Sewers	381.4
1012	10638200	CCNC WW Outfall Sewer Line	382.4
1012	10638910	CCNC WW Oth Plant & Misc Equipment	389.1
1012	10638920	CCNC WW Oth Plant & Misc Eq - Coll	389.2
1012	10638930	CCNC WW Oth Plant & Misc Eq - SPP	389.3
1012	10638940	CCNC WW Oth Plant & Misc Eq - TDP	389.4
1012	10639000	CCNC WW Office Furniture	390.7
1012	10639100	CCNC WW Transportation Equipment	391.7
1012	10639200	CCNC WW Stores Equipment	392.7
1012	10639300	CCNC WW Tool Shop & Garage Equip	393.7
1012	10639400	CCNC WW Laboratory Equipment	394.7
1012	10639500	CCNC WW Power Operated Equip	395.7
1012	10639600	CCNC WW Communication Equip	396.7
1012	10639700	CCNC WW Misc Equipment	397.7
1012	10639800	CCNC WW Other Tangible Pl	398.7
1012	10700000	CWIP	105.
1012	10780000	CWIP - Workbasket Accrual	105.
1012	10780100	CWIP - Backhoe Clearing	105.
1012	10780110	CWIP - Eng Clearing Dist Overhead	105.
1012	10780120	CWIP - Eng Clearing Eng Overhead	105.
1012	10780130	CWIP - Management Study - AMR	105.
1012	10780140	CWIP - Management Study - Pipe	105.
1012	10780150	CWIP - Interdistrict Clearing	105.
1012	10790000	CWIP - Capital Settlement Clearing	105.
1012	10801000	Accum Depreciation - Utility Plant in Service	108.1
1012	10802000	Accum Depreciation - Salvage/Scrap	108.1
1012	10803000	Accum Depreciation - Asset Sale	108.1
1012	10804000	Accum Depreciation - Original Cost	108.1
1012	10810000	Accum Depreciation - Reg Asset	108.1
1012	10820000	Accum Depreciation - Utility Plant Leased to Othrs	108.2
1012	10830000	Accum Depreciation - Property Held for Future Use	108.3
1012	10840000	Accum Amortization - Utility Plant in Service	110.1
1012	10850000	Accum Amortization - Utility Plant Capital Lease	110.1

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Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	11410000	UPAA - Above The Line	114.
1012	11415000	UPAA - Above The Line - Accum Amortization	115.
1012	11420000	UPAA - Above The Line Depreciation	114.
1012	11425000	UPAA - Above The Line Depr - Accum Depreciation	115.
1012	11430000	UPAA - Neg Post 1/1/06	114.
1012	11435000	UPAA - Neg Post 1/1/06 - Accum Amortization	115.
1012	12110000	Non-Utility Property - Land	121.
1012	12120000	Non-Utility Property - Buildings	121.
1012	12130003	Non-Utility Property - Capital Lease 3yr	121.
1012	12130004	Non-Utility Property - Capital Lease 4yr	121.
1012	12130005	Non-Utility Property - Capital Lease 5yr	121.
1012	12130007	Non-Utility Property - Capital Lease 7yr	121.
1012	12130010	Non-Utility Property - Capital Lease 10yr	121.
1012	12130015	Non-Utility Property - Capital Lease 15yr	121.
1012	12140000	Non-Utility Property - Leasehold Improvement	121.
1012	12150000	Non-Utility Property - Other 10 Yr	121.
1012	12150010	Non-Utility Property - Other 5yr	121.
1012	12150020	Non-Utility Property - Other 7yr	121.
1012	12150030	Non-Utility Property - Other 4 Yr	121.
1012	12150040	Non-Utility Property - Other Hardware	121.
1012	12150050	Non-Utility Property - Other Software	121.
1012	12150080	Non-Utility Property - Other Enterprise	121.
1012	12180000	Non-Utility Property - CWIP	121.
1012	12200000	Non-Utility Property - Accum Depreciation	122.
1012	12210000	Non-Utility Property - Accum Amortization Cap Lse	122.
1012	12310000	Goodwill	123.
1012	12320000	Goodwill - Post 1/1/06 UPAA	114.
1012	12400000	Investments - Outside	125.
1012	12401000	Investment in Joint Venture	125.
1012	12401100	Investment in Group Share Joint Venture	125.
1012	12410000	Investment in Assoc Co's	123.
1012	12420000	Investment in Assoc Co's Preferred Stock	123.
1012	12510000	Intangibles - Finite Life	123.
1012	12515000	Intangibles - Finite Life - Accum Amort	123.
1012	13112000	PNC AWK - Main	131.2
1012	13112001	PNC AWK - Outbound Wire	131.2
1012	13112002	PNC AWK - Outbound ACH	131.2
1012	13112003	PNC AWK - Outbound Check	131.2
1012	13112004	PNC AWK - Inbound Wires & ACH	131.2
1012	13112017	PNC AWK - Misc Debits/Credits	131.2
1012	13112100	PNC AWR - Main	131.2
1012	13112101	PNC AWR - Outbound Wire	131.2
1012	13112102	PNC AWR - Outbound ACH	131.2
1012	13112103	PNC AWR - Outbound Check	131.2
1012	13112104	PNC AWR - Inbound Wires & ACH	131.2
1012	13112116	PNC AWR - NSF Return Payments	131.2

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Company	G/L Account	Account Description	NARUC
1012	13112117	PNC AWR - Misc Debits/Credits	131.2
1012	13112400	PNC Pennvest - Main	131.2
1012	13112401	PNC Pennvest - Outbound Wire	131.2
1012	13112402	PNC Pennvest - Outbound ACH	131.2
1012	13112404	PNC Pennvest - Inbound Wires & ACH	131.2
1012	13112417	PNC Pennvest - Misc Debits/Credits	131.2
1012	13112500	PNC Investment IL - Main	131.2
1012	13112501	PNC Investment IL - Outbound Wire	131.2
1012	13112502	PNC Investment IL - Outbound ACH	131.2
1012	13112504	PNC Investment IL - Inbound Wires & ACH	131.2
1012	13112517	PNC Investment IL - Misc Debits/Credits	131.2
1012	13112700	PNC VA - Main	131.2
1012	13112701	PNC VA - Main - Outbound Wire	131.2
1012	13112702	PNC VA - Main - Outbound ACH	131.2
1012	13112717	PNC VA - Main - Misc Debits/Credits	131.2
1012	13112800	PNC WV Green Metering - Main	131.2
1012	13112801	PNC WV Green Metering - Outbound Wire	131.2
1012	13112802	PNC WV Green Metering - Outbound ACH	131.2
1012	13112804	PNC WV Green Metering - Inbound Wires & ACH	131.2
1012	13112817	PNC WV Green Metering - Misc Debits/Credits	131.2
1012	13115100	PNC ETown Corporate - Main	131.2
1012	13115101	PNC ETown Corporate - Outbound Wire	131.2
1012	13115102	PNC ETown Corporate - Outbound ACH	131.2
1012	13115103	PNC ETown Corporate - Outbound Check	131.2
1012	13115104	PNC ETown Corporate - Inbound Wires & ACH	131.2
1012	13115116	PNC ETown Corporate - NSF Return Payments	131.2
1012	13115117	PNC ETown Corporate - Misc Debits/Credits	131.2
1012	13115700	PNC ETown Properties - Main	131.2
1012	13115701	PNC ETown Properties - Outbound Wire	131.2
1012	13115702	PNC ETown Properties - Outbound ACH	131.2
1012	13115703	PNC ETown Properties - Outbound Check	131.2
1012	13115704	PNC ETown Properties - Inbound Wires & ACH	131.2
1012	13115716	PNC ETown Properties - NSF Return Payments	131.2
1012	13115717	PNC ETown Properties - Misc Debits/Credits	131.2
1012	13118000	PNC Laurel Oak Properties - Main	131.2
1012	13118001	PNC Laurel Oak Properties - Outbound Wire	131.2
1012	13118002	PNC Laurel Oak Properties - Outbound ACH	131.2
1012	13118003	PNC Laurel Oak Properties - Outbound Check	131.2
1012	13118004	PNC Laurel Oak Properties - Inbound Wires & ACH	131.2
1012	13118016	PNC Laurel Oak Properties - NSF Return Payments	131.2
1012	13118017	PNC Laurel Oak Properties - Misc Debits/Credits	131.2
1012	13118500	PNC ACUS Corp/Ashbrook - Main (Closed early 2012)	131.2
1012	13119000	PNC Thames Water Holding Inc - Main	131.2
1012	13119001	PNC Thames Water Holding Inc - Outbound Wire	131.2
1012	13119002	PNC Thames Water Holding Inc - Outbound ACH	131.2
1012	13119003	PNC Thames Water Holding Inc - Outbound Check	131.2

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Company	G/L Account	Account Description	NARUC
1012	13119004	PNC Thames Water Holding Inc - Inbound Wires & ACH	131.2
1012	13119016	PNC Thames Water Holding Inc - NSF Return Payments	131.2
1012	13119017	PNC Thames Water Holding Inc - Misc Debits/Credits	131.2
1012	13119100	PNC TWNA - Main	131.2
1012	13119101	PNC TWNA - Outbound Wire	131.2
1012	13119102	PNC TWNA - Outbound ACH	131.2
1012	13119103	PNC TWNA - Outbound Check	131.2
1012	13119104	PNC TWNA - Inbound Wires & ACH	131.2
1012	13119116	PNC TWNA - NSF Return Payments	131.2
1012	13119117	PNC TWNA - Misc Debits/Credits	131.2
1012	13120000	BNYM - Concentration	131.2
1012	13120001	BNYM-Conc - Outbound Wire	131.2
1012	13120004	BNYM-Conc - Inbound Wires & ACH	131.2
1012	13120005	BNYM-Conc - ZBA Activity	131.2
1012	13120006	BNYM-Conc - Customer Direct Debit	131.2
1012	13120007	BNYM-Conc - Customer ACH	131.2
1012	13120008	BNYM-Conc - Customer Lockbox	131.2
1012	13120009	BNYM-Conc - Online Resources Credit Corp	131.2
1012	13120010	BNYM-Conc - First Tech	131.2
1012	13120011	BNYM-Conc - FiServ (fka CheckFree)	131.2
1012	13120012	BNYM-Conc - Penn Credit	131.2
1012	13120013	BNYM-Conc - E-Return - Mellon	131.2
1012	13120014	BNYM-Conc - E-Return - Online Resource Ck Conv	131.2
1012	13120015	BNYM-Conc - Customer Accts Receiv Ck Conversion	131.2
1012	13120016	BNYM-Conc - NSF Return Payments	131.2
1012	13120017	BNYM-Conc - Misc Debits/Credits	131.2
1012	13120100	BNYM Pass thru-IL	131.2
1012	13120101	BNYM Pass thru-IL - Outbound Wire	131.2
1012	13120104	BNYM Pass thru-IL - Inbound Wires & ACH	131.2
1012	13120106	BNYM Pass thru-IL - Customer Direct Debit	131.2
1012	13120107	BNYM Pass thru-IL - Customer ACH	131.2
1012	13120108	BNYM Pass thru-IL - Customer Lockbox	131.2
1012	13120109	BNYM Pass thru-IL - Online Resources Credit Corp	131.2
1012	13120110	BNYM Pass thru-IL - First Tech	131.2
1012	13120111	BNYM Pass thru-IL - FiServ (fka CheckFree)	131.2
1012	13120112	BNYM Pass thru-IL - Penn Credit	131.2
1012	13120113	BNYM Pass thru-IL - E-Return - Mellon	131.2
1012	13120114	BNYM Pass thru-IL - E-Return - Online Rsrc Ck Conv	131.2
1012	13120115	BNYM Pass thru-IL - Customer A/R Ck Conversion	131.2
1012	13120116	BNYM Pass thru-IL - NSF Return Payments	131.2
1012	13120117	BNYM Pass thru-IL - Misc Debits/Credits	131.2
1012	13120200	BNYM Pass thru-NJ	131.2
1012	13120201	BNYM Pass thru-NJ - Outbound Wire	131.2
1012	13120204	BNYM Pass thru-NJ - Inbound Wires & ACH	131.2
1012	13120206	BNYM Pass thru-NJ - Customer Direct Debit	131.2
1012	13120207	BNYM Pass thru-NJ - Customer ACH	131.2

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Company	G/L Account	Account Description	NARUC
1012	13120208	BNYM Pass thru-NJ - Customer Lockbox	131.2
1012	13120209	BNYM Pass thru-NJ - Online Resources Credit Corp	131.2
1012	13120211	BNYM Pass thru-NJ - FiServ (fka CheckFree)	131.2
1012	13120212	BNYM Pass thru-NJ - Penn Credit	131.2
1012	13120213	BNYM Pass thru-NJ - E-Return - Mellon	131.2
1012	13120214	BNYM Pass thru-NJ - E-Return - Online Rsrc Ck Conv	131.2
1012	13120215	BNYM Pass thru-NJ - Customer A/R Ck Conversion	131.2
1012	13120216	BNYM Pass thru-NJ - NSF Return Payments	131.2
1012	13120217	BNYM Pass thru-NJ - Misc Debits/Credits	131.2
1012	13120300	BNYM Pass thru-NE	131.2
1012	13120301	BNYM Pass thru-NE - Outbound Wire	131.2
1012	13120304	BNYM Pass thru-NE - Inbound Wires & ACH	131.2
1012	13120306	BNYM Pass thru-NE - Customer Direct Debit	131.2
1012	13120307	BNYM Pass thru-NE - Customer ACH	131.2
1012	13120308	BNYM Pass thru-NE - Customer Lockbox	131.2
1012	13120309	BNYM Pass thru-NE - Online Resources Credit Corp	131.2
1012	13120310	BNYM Pass thru-NE - First Tech	131.2
1012	13120311	BNYM Pass thru-NE - FiServ (fka CheckFree)	131.2
1012	13120312	BNYM Pass thru-NE - Penn Credit	131.2
1012	13120313	BNYM Pass thru-NE - E-Return - Mellon	131.2
1012	13120314	BNYM Pass thru-NE - E-Return - Online Rsrc Ck Conv	131.2
1012	13120315	BNYM Pass thru-NE - Customer A/R Ck Conversion	131.2
1012	13120316	BNYM Pass thru-NE - NSF Return Payments	131.2
1012	13120317	BNYM Pass thru-NE - Misc Debits/Credits	131.2
1012	13120400	BNYM Pass thru-CA	131.2
1012	13120401	BNYM Pass thru-CA - Outbound Wire	131.2
1012	13120404	BNYM Pass thru-CA - Inbound Wires & ACH	131.2
1012	13120406	BNYM Pass thru-CA - Customer Direct Debit	131.2
1012	13120407	BNYM Pass thru-CA - Customer ACH	131.2
1012	13120408	BNYM Pass thru-CA - Customer Lockbox	131.2
1012	13120409	BNYM Pass thru-CA - Online Resources Credit Corp	131.2
1012	13120411	BNYM Pass thru-CA - FiServ (fka CheckFree)	131.2
1012	13120412	BNYM Pass thru-CA - Penn Credit	131.2
1012	13120413	BNYM Pass thru-CA - E-Return - Mellon	131.2
1012	13120414	BNYM Pass thru-CA - E-Return - Online Rsrc Ck Conv	131.2
1012	13120415	BNYM Pass thru-CA - Customer A/R Ck Conversion	131.2
1012	13120416	BNYM Pass thru-CA - NSF Return Payments	131.2
1012	13120417	BNYM Pass thru-CA - Misc Debits/Credits	131.2
1012	13121000	BNYM IN	131.2
1012	13121001	BNYM IN - Outbound Wire	131.2
1012	13121004	BNYM IN - Inbound Wires & ACH	131.2
1012	13121006	BNYM IN - Customer Direct Debit	131.2
1012	13121007	BNYM IN - Customer ACH	131.2
1012	13121008	BNYM IN - Customer Lockbox	131.2
1012	13121009	BNYM IN - Credit Card and E-Checks	131.2
1012	13121010	BNYM IN - First Tech	131.2

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Company	G/L Account	Account Description	NARUC
1012	13121012	BNYM IN - Penn Credit - 3rd Party Collections	131.2
1012	13121013	BNYM IN - E-Return - Mellon	131.2
1012	13121014	BNYM IN -Credit Card & Echeck E-Returns	131.2
1012	13121015	BNYM IN - Customer A/R Ck Conversion	131.2
1012	13121016	BNYM IN - NSF Return Payments	131.2
1012	13121017	BNYM IN - Misc Debits/Credits	131.2
1012	13121018	BNYM IN - Client Services - 3rd Party Collections	131.2
1012	13121100	BNYM IA	131.2
1012	13121101	BNYM IA - Outbound Wire	131.2
1012	13121104	BNYM IA - Inbound Wires & ACH	131.2
1012	13121106	BNYM IA - Customer Direct Debit	131.2
1012	13121107	BNYM IA - Customer ACH	131.2
1012	13121108	BNYM IA - Customer Lockbox	131.2
1012	13121109	BNYM IA - Credit Card and E-Checks	131.2
1012	13121110	BNYM IA - Firstech Collections	131.2
1012	13121111	BNYM IA - FiServ (fka CheckFree)	131.2
1012	13121112	BNYM IA - Penn Credit	131.2
1012	13121113	BNYM IA - E-Return - Mellon	131.2
1012	13121114	BNYM IA -Credit Card & Echeck E-Returns	131.2
1012	13121115	BNYM IA - Customer A/R Ck Conversion	131.2
1012	13121116	BNYM IA - NSF Return Payments	131.2
1012	13121117	BNYM IA - Misc Debits/Credits	131.2
1012	13121118	BNYM IA - Client Services - 3rd Party Collections	131.2
1012	13121200	BNYM KY	131.2
1012	13121201	BNYM KY - Outbound Wire	131.2
1012	13121204	BNYM KY - Inbound Wires & ACH	131.2
1012	13121206	BNYM KY - Customer Direct Debit	131.2
1012	13121207	BNYM KY - Customer ACH	131.2
1012	13121208	BNYM KY - Customer Lockbox	131.2
1012	13121209	BNYM KY - Credit Card and E-Checks	131.2
1012	13121211	BNYM KY - FiServ (fka CheckFree)	131.2
1012	13121212	BNYM KY - Penn Credit	131.2
1012	13121213	BNYM KY - E-Return - Mellon	131.2
1012	13121214	BNYM KY -Credit Card & Echeck E-Returns	131.2
1012	13121215	BNYM KY - Customer A/R Ck Conversion	131.2
1012	13121216	BNYM KY - NSF Return Payments	131.2
1012	13121217	BNYM KY - Misc Debits/Credits	131.2
1012	13121218	BNYM KY - Client Services - 3rd Party Collections	131.2
1012	13121300	BNYM MD	131.2
1012	13121301	BNYM MD - Outbound Wire	131.2
1012	13121304	BNYM MD - Inbound Wires & ACH	131.2
1012	13121306	BNYM MD - Customer Direct Debit	131.2
1012	13121307	BNYM MD - Customer ACH	131.2
1012	13121308	BNYM MD - Customer Lockbox	131.2
1012	13121309	BNYM MD - Credit Card and E-Checks	131.2
1012	13121311	BNYM MD - FiServ (fka CheckFree)	131.2

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Company	G/L Account	Account Description	NARUC
1012	13121312	BNYM MD - Penn Credit	131.2
1012	13121313	BNYM MD - E-Return - Mellon	131.2
1012	13121314	BNYM MD -Credit Card & Echeck E-Returns	131.2
1012	13121315	BNYM MD - Customer A/R Ck Conversion	131.2
1012	13121316	BNYM MD - NSF Return Payments	131.2
1012	13121317	BNYM MD - Misc Debits/Credits	131.2
1012	13121318	BNYM MD - Client Services - 3rd Party Collections	131.2
1012	13121500	BNYM CA - Main	131.2
1012	13121501	BNYM CA - Outbound Wire	131.2
1012	13121504	BNYM CA - Inbound Wires & ACH	131.2
1012	13121506	BNYM CA - Customer Direct Debit	131.2
1012	13121507	BNYM CA - Customer ACH	131.2
1012	13121508	BNYM CA - Customer Lockbox	131.2
1012	13121509	BNYM CA - Credit Card and E-Checks	131.2
1012	13121511	BNYM CA - FiServ (fka CheckFree)	131.2
1012	13121512	BNYM CA - Penn Credit	131.2
1012	13121513	BNYM CA - E-Return - Mellon	131.2
1012	13121514	BNYM CA - Credit Card & Echeck E-Returns	131.2
1012	13121515	BNYM CA - Customer A/R Ck Conversion	131.2
1012	13121516	BNYM CA - NSF Return Payments	131.2
1012	13121517	BNYM CA - Misc Debits/Credits	131.2
1012	13121518	BNYM CA - Client Services - 3rd Party Collections	131.2
1012	13121700	BNYM MO	131.2
1012	13121701	BNYM MO - Outbound Wire	131.2
1012	13121704	BNYM MO - Inbound Wires & ACH	131.2
1012	13121706	BNYM MO - Customer Direct Debit	131.2
1012	13121707	BNYM MO - Customer ACH	131.2
1012	13121708	BNYM MO - Customer Lockbox	131.2
1012	13121709	BNYM MO - Credit Card and E-Checks	131.2
1012	13121710	BNYM MO - First Tech	131.2
1012	13121712	BNYM MO - Penn Credit	131.2
1012	13121713	BNYM MO - E-Return - Mellon	131.2
1012	13121714	BNYM MO -Credit Card & Echeck E-Returns	131.2
1012	13121715	BNYM MO - Customer A/R Ck Conversion	131.2
1012	13121716	BNYM MO - NSF Return Payments	131.2
1012	13121717	BNYM MO - Misc Debits/Credits	131.2
1012	13121718	BNYM MO - Client Services - 3rd Party Collections	131.2
1012	13121800	BNYM NJ	131.2
1012	13121801	BNYM NJ - Outbound Wire	131.2
1012	13121804	BNYM NJ - Inbound Wires & ACH	131.2
1012	13121806	BNYM NJ - Customer Direct Debit	131.2
1012	13121807	BNYM NJ - Customer ACH	131.2
1012	13121808	BNYM NJ - Customer Lockbox	131.2
1012	13121809	BNYM NJ - Credit Card and E-Checks	131.2
1012	13121811	BNYM NJ - FiServ (fka CheckFree)	131.2
1012	13121812	BNYM NJ - Penn Credit	131.2

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Company	G/L Account	Account Description	NARUC
1012	13121813	BNYM NJ - E-Return - Mellon	131.2
1012	13121814	BNYM NJ - Credit Card & Echeck E-Returns	131.2
1012	13121815	BNYM NJ - Customer A/R Ck Conversion	131.2
1012	13121816	BNYM NJ - NSF Return Payments	131.2
1012	13121817	BNYM NJ - Misc Debits/Credits	131.2
1012	13121818	BNYM NJ - Client Services - 3rd Party Collections	131.2
1012	13121900	BNYM NM	131.2
1012	13121907	BNYM NM - Customer ACH	131.2
1012	13121908	BNYM NM - Customer Lockbox	131.2
1012	13121916	BNYM NM - NSF Return Payments	131.2
1012	13121917	BNYM NM - Misc Debits/Credits	131.2
1012	13122200	BNYM OH	131.2
1012	13122207	BNYM OH - Customer ACH	131.2
1012	13122208	BNYM OH - Customer Lockbox	131.2
1012	13122216	BNYM OH - NSF Return Payments	131.2
1012	13122217	BNYM OH - Misc Debits/Credits	131.2
1012	13122300	BNYM AZ	131.2
1012	13122307	BNYM AZ - Customer ACH	131.2
1012	13122308	BNYM AZ - Customer Lockbox	131.2
1012	13122316	BNYM AZ - NSF Return Payments	131.2
1012	13122317	BNYM AZ - Misc Debits/Credits	131.2
1012	13122400	BNYM PA	131.2
1012	13122401	BNYM PA - Outbound Wire	131.2
1012	13122404	BNYM PA - Inbound Wires & ACH	131.2
1012	13122406	BNYM PA - Customer Direct Debit	131.2
1012	13122407	BNYM PA - Customer ACH	131.2
1012	13122408	BNYM PA - Customer Lockbox	131.2
1012	13122409	BNYM PA - Credit Card and E-Checks	131.2
1012	13122411	BNYM PA - FiServ (fka CheckFree)	131.2
1012	13122412	BNYM PA - Penn Credit	131.2
1012	13122413	BNYM PA - E-Return - Mellon	131.2
1012	13122414	BNYM PA -Credit Card & Echeck E-Returns	131.2
1012	13122415	BNYM PA - Customer A/R Ck Conversion	131.2
1012	13122416	BNYM PA - NSF Return Payments	131.2
1012	13122417	BNYM PA - Misc Debits/Credits	131.2
1012	13122418	BNYM PA - Client Services - 3rd Party Collections	131.2
1012	13122500	BNYM IL - Main	131.2
1012	13122501	BNYM IL - Outbound Wire	131.2
1012	13122504	BNYM IL - Inbound Wires & ACH	131.2
1012	13122506	BNYM IL - Customer Direct Debit	131.2
1012	13122507	BNYM IL - Customer ACH	131.2
1012	13122508	BNYM IL - Customer Lockbox	131.2
1012	13122509	BNYM IL - Credit Card and E-Checks	131.2
1012	13122510	BNYM IL - First Tech	131.2
1012	13122511	BNYM IL - FiServ (fka CheckFree)	131.2
1012	13122512	BNYM IL - Penn Credit	131.2

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1012	13122513	BNYM IL - E-Return - Mellon	131.2
1012	13122514	BNYM IL -Credit Card & Echeck E-Returns	131.2
1012	13122515	BNYM IL - Customer A/R Ck Conversion	131.2
1012	13122516	BNYM IL - NSF Return Payments	131.2
1012	13122517	BNYM IL - Misc Debits/Credits	131.2
1012	13122518	BNYM IL - Client Services - 3rd Party Collections	131.2
1012	13122600	BNYM TN	131.2
1012	13122601	BNYM TN - Outbound Wire	131.2
1012	13122604	BNYM TN - Inbound Wires & ACH	131.2
1012	13122606	BNYM TN - Customer Direct Debit	131.2
1012	13122607	BNYM TN - Customer ACH	131.2
1012	13122608	BNYM TN - Customer Lockbox	131.2
1012	13122609	BNYM TN - Credit Card and E-Checks	131.2
1012	13122610	BNYM TN - Firstech Collections	131.2
1012	13122611	BNYM TN - FiServ (fka CheckFree)	131.2
1012	13122612	BNYM TN - Penn Credit	131.2
1012	13122613	BNYM TN - E-Return - Mellon	131.2
1012	13122614	BNYM TN - Credit Card & Echeck E-Returns	131.2
1012	13122615	BNYM TN - Customer A/R Ck Conversion	131.2
1012	13122616	BNYM TN - NSF Return Payments	131.2
1012	13122617	BNYM TN - Misc Debits/Credits	131.2
1012	13122618	BNYM TN - Client Services - 3rd Party Collections	131.2
1012	13122700	BNYM VA	131.2
1012	13122701	BNYM VA - Outbound Wire	131.2
1012	13122704	BNYM VA - Inbound Wires & ACH	131.2
1012	13122706	BNYM VA - Customer Direct Debit	131.2
1012	13122707	BNYM VA - Customer ACH	131.2
1012	13122708	BNYM VA - Customer Lockbox	131.2
1012	13122709	BNYM VA - Credit Card and E-Checks	131.2
1012	13122711	BNYM VA - FiServ (fka CheckFree)	131.2
1012	13122712	BNYM VA - Penn Credit	131.2
1012	13122713	BNYM VA - E-Return - Mellon	131.2
1012	13122714	BNYM VA -Credit Card & Echeck E-Returns	131.2
1012	13122715	BNYM VA - Customer A/R Ck Conversion	131.2
1012	13122716	BNYM VA - NSF Return Payments	131.2
1012	13122717	BNYM VA - Misc Debits/Credits	131.2
1012	13122718	BNYM VA - Client Services - 3rd Party Collections	131.2
1012	13122800	BNYM WV	131.2
1012	13122801	BNYM WV - Outbound Wire	131.2
1012	13122804	BNYM WV - Inbound Wires & ACH	131.2
1012	13122806	BNYM WV - Customer Direct Debit	131.2
1012	13122807	BNYM WV - Customer ACH	131.2
1012	13122808	BNYM WV - Customer Lockbox	131.2
1012	13122809	BNYM WV - Credit Card and E-Checks	131.2
1012	13122811	BNYM WV - FiServ (fka CheckFree)	131.2
1012	13122812	BNYM WV - Penn Credit	131.2

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1012	13122813	BNYM WV - E-Return - Mellon	131.2
1012	13122814	BNYM WV -Credit Card & Echeck E-Returns	131.2
1012	13122815	BNYM WV - Customer A/R Ck Conversion	131.2
1012	13122816	BNYM WV - NSF Return Payments	131.2
1012	13122817	BNYM WV - Misc Debits/Credits	131.2
1012	13122818	BNYM WV - Client Services - 3rd Party Collections	131.2
1012	13123000	BNYM HI	131.2
1012	13123001	BNYM HI - Outbound Wire	131.2
1012	13123004	BNYM HI - Inbound Wires & ACH	131.2
1012	13123006	BNYM HI - Customer Direct Debit	131.2
1012	13123007	BNYM HI - Customer ACH	131.2
1012	13123008	BNYM HI - Customer Lockbox	131.2
1012	13123009	BNYM HI - Credit Card and E-Checks	131.2
1012	13123010	BNYM HI - First Tech	131.2
1012	13123011	BNYM HI - FiServ (fka CheckFree)	131.2
1012	13123012	BNYM HI - Penn Credit	131.2
1012	13123013	BNYM HI - E-Return - Mellon	131.2
1012	13123014	BNYM HI -Credit Card & Echeck E-Returns	131.2
1012	13123015	BNYM HI - Customer A/R Ck Conversion	131.2
1012	13123016	BNYM HI - NSF Return Payments	131.2
1012	13123017	BNYM HI - Misc Debits/Credits	131.2
1012	13123018	BNYM HI - Client Services - 3rd Party Collections	131.2
1012	13123800	BNYM NY	131.2
1012	13123801	BNYM NY - Outbound Wire	131.2
1012	13123804	BNYM NY - Inbound Wires & ACH	131.2
1012	13123806	BNYM NY - Customer Direct Debit	131.2
1012	13123807	BNYM NY - Customer ACH	131.2
1012	13123808	BNYM NY - Customer Lockbox	131.2
1012	13123809	BNYM NY - Credit Card and E-Checks	131.2
1012	13123810	BNYM NY - First Tech	131.2
1012	13123811	BNYM NY - FiServ (fka CheckFree)	131.2
1012	13123812	BNYM NY - Penn Credit	131.2
1012	13123813	BNYM NY - E-Return - Mellon	131.2
1012	13123814	BNYM NY -Credit Card & Echeck E-Returns	131.2
1012	13123815	BNYM NY - Customer A/R Ck Conversion	131.2
1012	13123816	BNYM NY - NSF Return Payments	131.2
1012	13123817	BNYM NY - Misc Debits/Credits	131.2
1012	13123818	BNYM NY - Client Services - 3rd Party Collections	131.2
1012	13125200	BNYM EWC	131.2
1012	13125201	BNYM EWC - Outbound Wire	131.2
1012	13125204	BNYM EWC - Inbound Wires & ACH	131.2
1012	13125206	BNYM EWC - Customer Direct Debit	131.2
1012	13125208	BNYM EWC - Customer Lockbox	131.2
1012	13125209	BNYM EWC - Online Resources Credit Corp	131.2
1012	13125210	BNYM EWC - First Tech	131.2
1012	13125211	BNYM EWC - FiServ (fka CheckFree)	131.2

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1012	13125212	BNYM EWC - Penn Credit	131.2
1012	13125213	BNYM EWC - E-Return - Mellon	131.2
1012	13125214	BNYM EWC - E-Return - Online Resource Ck Conv	131.2
1012	13125215	BNYM EWC - Customer A/R Ck Conversion	131.2
1012	13125216	BNYM EWC - NSF Return Payments	131.2
1012	13125217	BNYM EWC - Misc Debits/Credits	131.2
1012	13125300	BNYM MH	131.2
1012	13125301	BNYM MH - Outbound Wire	131.2
1012	13125306	BNYM MH - Customer Direct Debit	131.2
1012	13125308	BNYM MH - Customer Lockbox	131.2
1012	13125309	BNYM MH - Online Resources Credit Corp	131.2
1012	13125310	BNYM MH - First Tech	131.2
1012	13125311	BNYM MH - FiServ (fka CheckFree)	131.2
1012	13125312	BNYM MH - Penn Credit	131.2
1012	13125313	BNYM MH - E-Return - Mellon	131.2
1012	13125314	BNYM MH - E-Return - Online Resource Ck Conv	131.2
1012	13125315	BNYM MH - Customer A/R Ck Conversion	131.2
1012	13125316	BNYM MH - NSF - Return Payments	131.2
1012	13125317	BNYM MH - Misc Debits/Credits	131.2
1012	13140000	PNC AWCC-Concentration	234.
1012	13140001	PNC AWCC-Concentration - Outbound Wire	234.
1012	13140002	PNC AWCC-Concentration - Outbound ACH	234.
1012	13140004	PNC AWCC-Concentration - Inbound Wires & ACH	234.
1012	13140005	PNC AWCC-Concentration - ZBA Activity	234.
1012	13140012	PNC AWCC-Concentration - Penn Credit	234.
1012	13140017	PNC AWCC-Concentration - Misc Debits/Credits	234.
1012	13140100	PNC AWCC-Accounts Payable	234.
1012	13140102	PNC AWCC-Accounts Payable - Outbound ACH	234.
1012	13140103	PNC AWCC-Accounts Payable - Outbound Check	234.
1012	13140104	PNC AWCC-Accounts Payable - Inbound Wires & ACH	234.
1012	13140105	PNC AWCC-Accounts Payable - ZBA Activity	234.
1012	13140117	PNC AWCC-Accounts Payable - Misc Debits/Credits	234.
1012	13140200	PNC AWCC-Payroll	234.
1012	13140202	PNC AWCC-Payroll - Outbound ACH	234.
1012	13140203	PNC AWCC-Payroll - Outbound Check	234.
1012	13140204	PNC AWCC-Payroll - Inbound Wires & ACH	234.
1012	13140205	PNC AWCC-Payroll - ZBA Activity	234.
1012	13140217	PNC AWCC-Payroll - Misc Debits/Credits	234.
1012	13140300	PNC AWCC-Customer Refund	234.
1012	13140303	PNC AWCC-Customer Refund - Outbound Check	234.
1012	13140304	PNC AWCC-Customer Refund - Inbound Wires & ACH	234.
1012	13140305	PNC AWCC-Customer Refund - ZBA Activity	234.
1012	13140317	PNC AWCC-Customer Refund - Misc Debits/Credits	234.
1012	13140400	PNC AWCC-Commercial Paper	234.
1012	13140401	PNC AWCC-Commercial Paper - Outbound Wire	234.
1012	13140402	PNC AWCC-Commercial Paper - Outbound ACH	234.

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1012	13140404	PNC AWCC-Commercial Paper - Inbound Wires & ACH	234.
1012	13140417	PNC AWCC-Commercial Paper - Misc Debits/Credits	234.
1012	13140500	PNC AWCC- Credit Line	234.
1012	13140501	PNC AWCC- Credit Line - Outbound Wire	234.
1012	13140502	PNC AWCC- Credit Line - Outbound ACH	234.
1012	13140504	PNC AWCC- Credit Line - Inbound Wires & ACH	234.
1012	13140517	PNC AWCC- Credit Line - Misc Debits/Credits	234.
1012	13140600	PNC AWCC-Misc Items Lockbox	234.
1012	13140601	PNC AWCC-Misc Items Lockbox - Outbound Wire	234.
1012	13140602	PNC AWCC-Misc Items Lockbox - Outbound ACH	234.
1012	13140604	PNC AWCC-Misc Items Lockbox - Inbound Wires & ACH	234.
1012	13140617	PNC AWCC-Misc Items Lockbox - Misc Debits/Credits	234.
1012	13140700	PNC AWCC-AP Vendor Payment	234.
1012	13140701	PNC AWCC-AP Vendor Payment - Outbound Wire	234.
1012	13140702	PNC AWCC-AP Vendor Payment - Oubound ACH	131.2
1012	13140704	PNC AWCC-AP Vendor Payment - Inbound Wires & ACH	234.
1012	13140705	PNC AWCC-AP Vendor Payment - ZBA Activity	234.
1012	13180100	Suntrust TN	131.2
1012	13180101	Suntrust TN - Outbound Wire	131.2
1012	13180106	Suntrust TN - Customer Direct Debit	131.2
1012	13180108	Suntrust TN - Customer Lockbox	131.2
1012	13180109	Suntrust TN - Online Resources Credit Corp	131.2
1012	13180111	Suntrust TN - FiServ (fka CheckFree)	131.2
1012	13180112	Suntrust TN - Penn Credit	131.2
1012	13180113	Suntrust TN - E-Return - Mellon	131.2
1012	13180114	Suntrust TN - E-Return - Online Resource Ck Conv	131.2
1012	13180115	Suntrust TN - Customer A/R Ck Conversion	131.2
1012	13180116	Suntrust TN - NSF - Return Payments	131.2
1012	13180117	Suntrust TN - Misc Debits/Credits	131.2
1012	13180200	River Valley MI	131.2
1012	13180201	River Valley MI - Outbound Wire	131.2
1012	13180202	River Valley MI - Outbound ACH	131.2
1012	13180208	River Valley MI - Customer Lockbox	131.2
1012	13180216	River Valley MI - NSF Return Payments	131.2
1012	13180217	River Valley MI - Misc Debits/Credits	131.2
1012	13180300	First Hawaiian HI	131.2
1012	13180301	First Hawaiian HI - Outbound Wire	131.2
1012	13180302	First Hawaiian HI - Outbound ACH	131.2
1012	13180308	First Hawaiian HI - Customer Lockbox	131.2
1012	13180316	First Hawaiian HI - NSF Return Payments	131.2
1012	13180317	First Hawaiian HI - Misc Debits/Credits	131.2
1012	13180400	Union First VA	131.2
1012	13180401	Union First VA - Outbound Wire	131.2
1012	13180402	Union First VA - Outbound ACH	131.2
1012	13180408	Union First VA - Customer Lockbox	131.2
1012	13180417	Union First VA - Misc Debits/Credits	131.2

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1012	13181800	TD Bank - Gift Card Incentive	131.2
1012	13182400	PNC Conveyance Fee Escrow - Main	131.2
1012	13182401	PNC Conveyance Fee Escrow - Outbound Wire	131.2
1012	13182417	PNC Conveyance Fee Escrow - Misc Debits/Credits	131.2
1012	13182500	Busey Bank IL-Collections for Bollingbrook	131.2
1012	13182516	Busey Bank IL-NSF Return Payments-Bollingbrook	131.2
1012	13182600	First Volunteer Bank, Whitwell, TN	131.2
1012	13199001	Cash Clearing - NSF Check	131.2
1012	13199002	Cash Clearing - Mixed Payments	131.2
1012	13199003	Cash Clearing - Misc Debits/Credits	131.2
1012	13199004	Cash Clearing - MI's	131.2
1012	13199005	Cash Clearing - ORCOM	131.2
1012	13199006	Cash Clearing - Intercompany	131.2
1012	13199999	Cash Conversion History	131.2
1012	13500000	Petty Cash	134.
1012	13600000	Temp Investments - under 90 days	135.
1012	13700000	Temp Investments - over 90 days	135.
1012	13800000	Funds Restricted for Construction - Current	131.2
1012	14100000	A/R - Customer - CIS Reconciliation	141.
1012	14100001	A/R - Customer - Non-Regulated	141.
1012	14100002	A/R - Customer - Unallocated	141.
1012	14100003	A/R - Customer - ECIS	141.
1012	14100010	A/R - Customer - Miscellaneous - PAW Other	141.
1012	14100020	A/R - Customer - Pittsburgh	141.
1012	14100099	A/R - Customer - Clearing - Credit Rfnd Processing	141.
1012	14100998	A/R - Customer - Payment Clarification	141.
1012	14100999	A/R - Customer - Returns Clarification	141.
1012	14300000	Allowance for Uncollectible Accounts	143.
1012	14300001	Allowance for Uncollectible Accounts Non-Regulated	143.
1012	14399999	Allowance for Uncollectable Accts - CIS Conversion	143.
1012	14400000	Unbilled Utility Revenue	173.
1012	14400001	Unbilled Utility Revenue Non-Regulated	173.
1012	14510000	A/R Assoc Cos - Miscellaneous	145.
1012	14510100	A/R Assoc Cos - Reconciliation Account	145.
1012	14510600	Intercompany System Clearing -CIS Only	145.
1012	14510999	A/R Assoc Cos - Settlement Clearing	145.
1012	14511000	A/R Assoc Cos - Service Company Bill	145.
1012	14511001	A/R Assoc Cos - Service Company Bill	145.
1012	14511031	A/R Assoc Cos - Service Settlement AWE	145.
1012	14511039	A/R Assoc Cos - Service Settlement New York Aqua	145.
1012	14511054	A/R Assoc Cos - Service Settlement Edison	145.
1012	14511055	A/R Assoc Cos - Service Settlement Liberty	145.
1012	14511056	A/R Assoc Cos - Service Settlement E'Town Services	145.
1012	14512000	A/R Assoc Cos - Payroll Tax	145.
1012	14512500	A/R Assoc Cos - Payroll Disbursements	145.
1012	14571000	A/R Assoc Cos - Dividend Receivable	171.

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1012	14572000	A/R Assoc Cos - Interest Receivable	171.
1012	14573000	A/R Assoc Cos - Dividend Equivalents	145.
1012	14574000	N/R Assoc Co's	146.
1012	14575000	Capital Lease Rec Assoc Cos	145.
1012	14575500	Unearned Capital Lease Rec Assoc Cos	145.
1012	14610000	Misc A/R - Reconciliation Account	142.
1012	14610099	Misc A/R - Conversion	142.
1012	14611000	Misc A/R - Manual	142.
1012	14611200	Misc A/R - Retro Insurance	142.
1012	14611300	Misc A/R - Liability Insurance	142.
1012	14611500	Misc A/R - Medicare Subsidy	142.
1012	14612500	Misc A/R - OPEB Trust	142.
1012	14613000	Misc A/R - Employees	142.
1012	14613100	Misc A/R - Employees Payroll	142.
1012	14619999	Misc A/R - Miscellaneous Invoice Lockbox Clearing	142.
1012	14620000	Misc Rec - Allow for Uncollectible Accts	142.
1012	14640000	Notes Receivable	144.
1012	14670000	Accrued Interest & Dividend Receivable	171.
1012	14690000	Current Portion LT Receivable	142.
1012	14810000	Income Tax Receivable - SIT	142.
1012	14820000	Income Tax Receivable - FIT	142.
1012	15110000	Inventory - Plant Material	151.
1012	15120000	Inventory - Fuel	151.
1012	15130000	Inventory - Chemicals	151.
1012	15140000	Inventory - Other Materials & Supplies	153.
1012	15199997	Inventory - Price Difference	153.
1012	15199998	Inventory - Consignment Clearing	153.
1012	15199999	Inventory - Conversion	153.
1012	16410000	Other Special Deposits	133.
1012	16420000	Other Current Assets	174.
1012	16510000	Prepaid Taxes	162.
1012	16510001	Prepaid Taxes - CIS-San Diego License/Franch Tax	162.
1012	16520000	Prepaid Insurance	162.
1012	16525000	Prepaid Insurance - Intercompany	162.
1012	16530000	Prepaid PUC/PSC Assessment	162.
1012	16540000	Prepaid Audit Fees	162.
1012	16550000	Prepaid Other	162.
1012	16550010	Prepaid Other - Global	162.
1012	17420000	Current Portion-Deferred Federal Income Tax Asset	174.
1012	17430000	Current Portion-Deferred State Income Tax Asset	174.
1012	18503000	Reg Asset-Inc Tax Rec Thru Rates-AFUDC Equity CWIP	186.3
1012	18503500	Reg Asset-Inc Tax Rec Thru Rates-AFUDC Equity	186.3
1012	18504000	Reg Asset-Inc Tax Rec Thru Rates-Plant Flow Thru	186.3
1012	18504500	Reg Asset-Inc Tax Rec Thru Rates-Other	186.3
1012	18505000	Reg Asset-Inc Tax Rec Thru Rates-St Flow Thru	186.3
1012	18505100	Reg Asset-Inc Tax Rec Thru Rates-St Tax Chg	186.3

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1012	18505500	Reg Asset-Inc Tax Rec Thru Rates-Acc Amort	186.3
1012	18506000	Reg Asset-Inc Tax Rec Thru Rates-Reg Liab Reclass	186.3
1012	18610000	Reg Asset - Deferred Programmed Maint	186.2
1012	18620000	Reg Asset - Deferred Rate Case	186.1
1012	18631000	Reg Asset - Deferred OPEB	186.2
1012	18632000	Reg Asset - Deferred OPEB Service Co	186.2
1012	18641000	Reg Asset - Deferred Pension	186.2
1012	18642000	Reg Asset - Deferred Pension Service Co	186.2
1012	18650000	Reg Asset - Purchase Prem Rec Thru Rates	186.2
1012	18661000	Reg Asset - Unamortized Debt Exp	181.
1012	18661500	Reg Asset - Unamortized Debt Exp Interco	181.
1012	18662000	Reg Asset - Unamortized Preferred Stock Exp	181.
1012	18680000	Reg Asset - Cost of Removal	108.1
1012	18680100	Reg Asset - Cost of Removal - RWIP	186.2
1012	18680101	Reg Asset - Deferred Vacation Pay	174.
1012	18680102	Reg Asset - Deferred Cust Service Proj	183.
1012	18680103	Reg Asset - Deferred Financial Services Proj	183.
1012	18680111	Reg Asset - Sick Bank	186.2
1012	18680113	Reg Asset - Deferred Purchased Water	186.2
1012	18680126	Reg Asset - FAS112 Costs	186.2
1012	18680127	Reg Asset - Treatment Plant	186.2
1012	18680131	Reg Asset - Depreciation Study	186.2
1012	18680132	Reg Asset - Cost of Service Study	186.2
1012	18680134	Reg Asset - Post In-Service AFUDC	186.2
1012	18680135	Reg Asset - Post In-Service Depreciation	186.2
1012	18680136	Reg Asset - Environmental Remediation	186.2
1012	18680137	Reg Asset - Rental Costs	186.2
1012	18680140	Carmel River Mitigatigation Balancing Account	186.2
1012	18680141	Reg Asset - Oper Energy Efficiency	186.2
1012	18680142	Reg Asset - Cease & Desist Order	186.2
1012	18680143	Reg Asset - Cease & Desist Penalty	186.2
1012	18680144	Reg Asset - Waste Disposal	186.2
1012	18680145	Reg Asset - Revenue Stabilization	186.2
1012	18680147	Reg Asset - Low Income Customer Data Sharing	186.2
1012	18680150	Reg Asset- Low Income Balancing	186.2
1012	18680151	Reg Asset - Phase 1 ASR	186.2
1012	18680152	Reg Asset - Seaside ASR	186.2
1012	18680153	Reg Asset - Patton Well	186.2
1012	18680154	Reg Asset - Management Study	186.2
1012	18680160	Reg Asset - Santa Rosa Groundwater Survey	186.2
1012	18680162	Reg Asset - Acquisition Costs	186.2
1012	18680163	Reg Asset - DSIC Surcharge	186.2
1012	18680164	Reg Asset - Low Income Program Costs	186.2
1012	18680165	Reg Asset - Interim Rates	186.2
1012	18680166	Reg Asset - Water Revenue Adjustment Mechanism	186.2
1012	18680167	Reg Asset - San Clemente Dam AFUDC	186.2

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1012	18680168	Reg Asset - Conservation Surcharge	186.2
1012	18680169	Reg Asset - Engineering Study	186.2
1012	18680170	Reg Asset - San Clemente Dam Removal Costs	186.2
1012	18680171	Sand City Desal Plant Pur Wtr Bal Acct	186.2
1012	18680172	Reg Asset -Leak Adjustments	186.2
1012	18680191	Reg Asset - PSTAC Balancing Account	186.2
1012	18680192	Reg Asset - Additional Security Costs	186.2
1012	18680194	Reg Asset - Conservation Balancing Acct	186.2
1012	18680195	Reg Asset - Purch Power & Water Balancing Acct	186.2
1012	18680196	Reg Asset - Carmel River Dam	186.2
1012	18680197	Reg Asset - Coastal Water Project Surcharge	186.2
1012	18680198	Reg Asset - Seaside GW Basin	186.2
1012	18680199	Reg Asset - Endangered Species Act	186.2
1012	18680200	Reg Asset - Authorized Balancing Account	186.2
1012	18680210	Reg Asset - Water Action Plan - Memo Acct	186.2
1012	18680211	Reg Asset - Conservation/Rationing	186.2
1012	18680295	Reg Asset - EITF	186.2
1012	18680395	Reg Asset - Sacrament VCMRRAMA	186.2
1012	18689900	Reg Asset - Other	186.2
1012	18711000	LT Asset - Preliminary Financing Exp	186.2
1012	18712000	LT Asset - SERP Trust	186.2
1012	18712500	LT Asset - Deferred Comp Trust	186.2
1012	18713000	LT Asset - Prelim Survey & Investigation	183.
1012	18715000	LT Asset - Unamortized Debt Exp Non-Reg	181.
1012	18715500	LT Asset - Unamort Debt Exp Non-Reg Interco	181.
1012	18715700	LT Asset - Unamort Debt In - Revolver	181.
1012	18720000	LT Asset - Swap Contract	186.2
1012	18740000	LT Asset - Receivable	186.2
1012	18741000	LT Asset - Intercompany Notes	186.2
1012	18742000	LT Asset - Intercompany Capital Lease	186.2
1012	18742100	LT Asset - Intercompany Capital Lease Income	186.2
1012	18790000	LT Asset - Other	186.2
1012	18800000	Funds Restricted for Construction - LT	186.2
1012	20110000	Common Stock - Subs Minority Interest	201.
1012	20120000	Common Stock - Subs Intercompany	201.
1012	20130000	Common Stock - AWK	201.
1012	20510000	Paid-in Capital - Subs Minority Interest	207.
1012	20520000	Paid-in Capital - Subs Intercompany	211.
1012	20530000	Paid-in Capital - AWK Misc	207.
1012	20530100	Paid-in Capital - AWK Restricted Stock	211.
1012	20530200	Paid-in Capital - AWK Options	211.
1012	20530300	Paid-in Capital - AWK RSU's	211.
1012	20530400	Paid-in Capital - AWK Treasury Stock	211.
1012	20530500	Paid-in Capital - AWK ESPP	211.
1012	20530600	Paid-in Capital - AWK DRIP	211.
1012	20530650	Paid-in Capital - DWAC Fees	211.

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1012	20530700	Paid-in Capital - Tax Windfall	211.
1012	20540000	Paid-in Capital - AWK Capital Stock Expense	211.
1012	21021000	Retained Earnings at Acquisition Intercompany	215.
1012	21024000	Retained Earnings Since Acquisition	215.
1012	21200000	Treasury stock	216.
1012	21300000	Accumulated Comprehensive Income	216.
1012	21300300	Accumulated Comprehensive Income - Hedge	216.
1012	21300305	Accumulated Comprehensive Income - Hedge - Interco	216.
1012	21410000	Preferred Stock - w/o Mandatory Redemptn Requirmts	205.
1012	21420000	Preferred Stock - w/o Mand Redemptn Requirmts I/C	205.
1012	21510000	Preferred Stock - Redeemable	204.
1012	21510100	Preferred Stock - Redeemable FV Uplift	204.
1012	21550000	Curr Portion - Redeemable Preferred Stock	204.
1012	22110000	Bonds	221.
1012	22110100	Bonds - FV Uplift	221.
1012	22110200	Bonds - FV Hedge	221.
1012	22110400	LT Debt - Discount Inside	221.
1012	22110500	AWTR-LT Debt Premium-Outside	221.
1012	22115000	Bonds - Interco	221.
1012	22130000	Capital Lease	224.
1012	22135000	Capital Lease - Interco	224.
1012	22210000	Current Portion LTD	221.
1012	22215000	Current Portion LTD - Interco	221.
1012	22230000	Current Portion Capital Lease	224.
1012	22235000	Current Portion Capital Lease Interco	224.
1012	23110000	N/P Commercial Paper	232.
1012	23110500	N/P Commercial Paper Discount	232.
1012	23120000	N/P Assoc Cos	234.
1012	23121000	In-House Cash Center Bank	234.
1012	23121001	IHC Clearing - Outgoing Payment	234.
1012	23121002	IHC Clearing - Incoming Payment	234.
1012	23121003	In-House Cash Center - Payment Clearing	234.
1012	23121004	In-House Cash Center - Clearing Account	234.
1012	23121005	IHC Clearing - Intermediate	234.
1012	23121006	IHC Clearing - Other	234.
1012	23129000	N/P Assoc Cos - Loan Clearing	234.
1012	23130000	N/P Revolving Credit Line	232.
1012	23410000	A/P - Reconciliation Account	231.
1012	23410100	A/P Intercompany - Reconciliation Account	233.
1012	23410999	A/P - Conversion	231.
1012	23411000	A/P - Pcard	231.
1012	23411001	PCard Distributed-Clearing for Mapped Transactions	231.
1012	23411400	A/P - Gcard Clearing	231.
1012	23411500	A/P - Pcard Clearing	231.
1012	23412000	A/P - Utility Bills	231.
1012	23412200	A/P - Contracted Services	231.

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1012	23412500	A/P - Phone Bills	231.
1012	23420000	A/P - Contract Retentions	231.
1012	23430000	A/P - Miscellaneous	231.
1012	23430600	A/P - Workbasket Accrual	231.
1012	23430700	A/P - Pcard Accrual	231.
1012	23430900	A/P - PNC Loan Clearing	231.
1012	23431000	A/P - Misc Global	231.
1012	23435000	A/P - Project Cost Accrual	231.
1012	23436000	A/P-GRIR Capital Services	231.
1012	23439000	A/P - Income Taxes Withheld	231.
1012	23510000	A/P Associated Companies	233.
1012	23510500	A/P Associated Companies - Dividend Equivalents	233.
1012	23510600	Intercompany System Clearing -CIS Only	233.
1012	23520000	A/P Associated Companies - Service Co Bill	233.
1012	23520001	A/P Associated Companies - Service Co Bill	233.
1012	23530000	CFO - WLPP Interco	233.
1012	23530100	CFO - SLPP Interco	233.
1012	23530200	CFO - InHome Interco	233.
1012	23530300	CFO - WLPP/SLPP Interco	233.
1012	23530400	CFO - WLPP/SLPP/InHome Interco	233.
1012	23540000	CFO - WLPP Receivable Interco	233.
1012	23540001	CFO - WLPP Receivable Interco - CIS Reconciliation	233.
1012	23540100	CFO - SLPP Receivable Interco	233.
1012	23540101	CFO - SLPP Receivable Interco - CIS Reconciliation	233.
1012	23540200	CFO - InHome Receivable Interco	233.
1012	23540201	CFO - InHome Receivable I/C - CIS Reconciliation	233.
1012	23540300	CFO - WLPP/SLPP Receivable Interco	233.
1012	23540301	CFO - WLPP/SLPP Receivable I/C-CIS Reconciliation	233.
1012	23540400	CFO - WLPP/SLPP/InHome Receivable Interco	233.
1012	23540401	CFO - WLPP/SLPP/InHome Rec I/C-CIS Reconciliation	233.
1012	23599999	Intercompany System Clearing	233.
1012	23621000	Accrued FIT - Current Year	236.1
1012	23621500	Accrued FIT - Current Year Unitary Returns	236.1
1012	23622000	Accrued FIT - Prior Years	236.1
1012	23622500	Accrued FIT - Prior Years Unitary Returns	236.1
1012	23631000	Accrued SIT - Current Year	236.1
1012	23631500	Accrued SIT - Current Year Unitary Returns	236.1
1012	23632000	Accrued SIT - Prior Years	236.1
1012	23632500	Accrued SIT - Prior Years - Unitary Returns	236.1
1012	23651000	Accrued Tax - Gross Income & Receipts	236.1
1012	23651100	Accrued Tax - Gross Income & Receipts-IncTax	236.1
1012	23652000	Accrued Tax - FUTA	236.1
1012	23652100	Accrued Tax - FICA	236.1
1012	23652200	Accrued Tax - SUTA	236.1
1012	23652300	Accrued Tax - Payroll Tax Clearing	236.1
1012	23653000	Accrued Tax - Property Tax	236.1

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1012	23654000	Accrued Tax - Use Tax	236.1
1012	23654100	Accrued Tax - Franchise Tax	236.1
1012	23654110	Accrued Tax - Franchise Tax - Income Tax	236.1
1012	23654200	Accrued Tax - PURTA	236.1
1012	23654300	Accrued Tax - Capital Stock	236.1
1012	23654310	Accrued Tax - Capital Stock - Income Tax	236.1
1012	23659000	Accrued Tax - Other	236.1
1012	23720000	Interest Accrued - LTD	237.1
1012	23730000	Interest Accrued - LTD Interco	237.1
1012	23740000	Interest Accrued - Redeemable Preferred Dividends	241.
1012	23750000	Interest Accrued - Other	237.2
1012	24120000	Accrued Vacation Pay	241.
1012	24120100	Accrued Water Purchases	241.
1012	24120200	Accrued Power	241.
1012	24120300	Accrued Legal	241.
1012	24120600	Accrued Wages	241.
1012	24120699	Accrued Wages - Net Adjustments Clearing	241.
1012	24120700	Accrued Insurance	241.
1012	24120710	Accrued Insurance Retro Adjustment	241.
1012	24120800	Accrued Rents	241.
1012	24121000	Accrued Waste Disposal	241.
1012	24121100	Accrued Retiree Medical	241.
1012	24121200	Accrued DCP - Contribution	241.
1012	24121400	Accrued Bank Fees	241.
1012	24121500	Accrued Credit Lines Fees	241.
1012	24121800	Accrued Severance	241.
1012	24121900	Accrued Healthy Solution	241.
1012	24122500	Refund Rates Under Bond	241.
1012	24122600	Accrued Safety Incentive	241.
1012	24122700	Accrued Employer 401k Match	241.
1012	24122800	Accr'd Pref'd Dividnds w/o Mand Redmptn Requiremts	241.
1012	24122850	Pref'd Div Declared w/o Mand Redemptn Requiremts	238.
1012	24122900	Common Dividends Declared	238.
1012	24123000	Accrued Incentive Plan Cash	241.
1012	24123100	Accrued Construction Costs	241.
1012	24126000	Miscellaneous Deposits Payable	241.
1012	24126200	Accrued Paving	241.
1012	24126300	Accrued Litigation	241.
1012	24126400	Customer Deposits	235.
1012	24126500	Accrued Audit Fees	241.
1012	24129000	Accrued NOAA Settlement - Current Portion	241.
1012	24133000	Unclaimed Customer Credits	241.
1012	24133200	Unclaimed A/P Checks	241.
1012	24133300	Unclaimed Wages	241.
1012	24142001	WH PR - Union Dues	241.
1012	24142002	WH PR - Charity Contributions	241.

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1012	24142005	WH PR - Flex Spending	241.
1012	24142006	WH PR - 401k Contributions	241.
1012	24142008	WH PR - Garnishments	241.
1012	24142009	WH PR - Life Insurance	241.
1012	24142010	WH PR - Tax Coll Pay FIT	241.
1012	24142011	WH PR - Tax Coll Pay SUI	241.
1012	24142012	WH PR - Tax Coll Pay LIT	241.
1012	24142013	WH PR - Tax Coll Pay FICA	241.
1012	24142014	WH PR - ESPP	241.
1012	24142099	WH PR - Miscellaneous	241.
1012	24142100	WH PR - Tax Coll SIT	241.
1012	24161000	GRIR - Stock E (Materials)	241.
1012	24162000	GRIR - Stock D (Fuel)	241.
1012	24163000	GRIR - Stock C (Chemicals)	241.
1012	24164000	GRIR - Non-inventory	241.
1012	24165000	GRIR - Freight	241.
1012	24166000	GRIR-Capital Expenditure Accruals Reclass	241.
1012	24169999	GRIR - Conversion	241.
1012	24171000	CFO Miscellaneous	241.
1012	24171001	CFO Customer Assistance	241.
1012	24171005	CFO Customer Assistance Non Pledged	241.
1012	24171006	CFO Customer Assistance Pledged	241.
1012	24171009	CFO Primacy fees	241.
1012	24171011	CFO MC/Sewer Revenue/Cash	241.
1012	24171012	CFO MC/Sewer A/R	241.
1012	24171013	CFO MC/Sewer Adjustment	241.
1012	24171014	CFO MC/Sewer ChgOff	241.
1012	24172000	CFO Sales Tax	241.
1012	24172001	CFO Sales Tax AZ	241.
1012	24172002	CFO Sales Tax CA Chula Vista	241.
1012	24172003	CFO Sales Tax CA Sacramento	241.
1012	24172004	CFO Sales Tax CA San Marino	241.
1012	24172005	CFO Sales Tax FL	241.
1012	24172006	CFO Sales Tax IL Belleville	241.
1012	24172007	CFO Sales Tax IL Alton	241.
1012	24172008	CFO Sales Tax IL Chicago	241.
1012	24172009	CFO Sales Tax IN	241.
1012	24172010	CFO Sales Tax KY	241.
1012	24172011	CFO Sales Tax MO	241.
1012	24172012	CFO Sales Tax NJ	241.
1012	24172013	CFO Sales Tax PA	241.
1012	24172014	CFO Sales Tax TN	241.
1012	24172015	CFO Sales Tax WV	241.
1012	24172100	CFO Sales Tax - from CIS	241.
1012	24173000	CFO Gross Receipts Tax	241.
1012	24173100	CFO Gross Receipts Tax - from CIS	241.

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1012	24174000	CFO Municipal Tax	241.
1012	24174100	CFO Municipal Tax - from CIS	241.
1012	24175100	CFO PUC Surcharge - from CIS	241.
1012	24199700	Deferred Revenue - Current Portion	241.
1012	24199701	Deferred Revenue - Current Portion - Intercompany	241.
1012	24199800	Other Current Liabilities - Tax Sensitive	241.
1012	24199900	Other Current Liabilities - Non-Tax Sensitive	241.
1012	25211000	Advances for Construction - NT Mains	252.
1012	25212000	Advances for Construction - NT Ext Deposits	252.
1012	25213000	Advances for Construction - NT Services	252.
1012	25214000	Advances for Construction - NT Meters	252.
1012	25215000	Advances for Construction - NT Hydrants	252.
1012	25216000	Advances for Construction - NT Other	252.
1012	25217000	Advances for Construction - NT WIP	252.
1012	25222000	Advances for Construction - Tax Ext Deposits	252.
1012	25223000	Advances for Construction - Tax Services	252.
1012	25224000	Advances for Construction - Tax Meters	252.
1012	25226000	Advances for Construction - Tax Other	252.
1012	25227000	Advances for Construction - Tax WIP	252.
1012	25230000	Advances for Construction - Tax SIT	252.
1012	25280000	Advances for Construction - Reclassed to Current	252.
1012	25299900	Advances for Construction - Current	252.
1012	25310000	Deferred FIT Liability - Normalized Property	283.
1012	25311000	Deferred FIT Liability - Other	283.
1012	25311500	Deferred FIT Liability - Unitary Returns	283.
1012	25319000	Deferred FIT Asset - Long Term	190.1
1012	25321000	Deferred SIT Liability - Other	283.
1012	25321500	Deferred SIT Liability - Unitary Returns	283.
1012	25329000	Deferred SIT Asset - Long Term	190.2
1012	25340000	Deferred FIT Liability - Current	236.1
1012	25349000	Deferred FIT Asset - Current	174.
1012	25350000	Deferred SIT Liability - Current	236.1
1012	25359000	Deferred SIT Asset - Current	174.
1012	25510100	Unamortized ITC - 3%	255.1
1012	25510200	Unamortized ITC - 4%	255.1
1012	25510300	Unamortized ITC - 10%	255.1
1012	25510400	Unamortized ITC - 6%	255.1
1012	25510500	Unamortized ITC - State	255.1
1012	25621000	Reg Liab-Inc Tax Rec Thru Rates-Exc Def FIT	253.1
1012	25621100	Reg Liab-Inc Tax Rec Thru Rates-Exc Def AFUDC FIT	253.1
1012	25621200	Reg Liab-Inc Tax Rec Thru Rates-Exc Def Depr FIT	253.1
1012	25622000	Reg Liab-Inc Tax Rec Thru Rates-Deficit Def	253.1
1012	25623000	Reg Liab-Inc Tax Rec Thru Rates-Exc Def SIT	253.1
1012	25623100	Reg Liab-Inc Tax Rec Thru Rates-Exc Def AFUDC SIT	253.1
1012	25623200	Reg Liab-Inc Tax Rec Thru Rates-Exc Def Dep SIT	253.1
1012	25624000	Reg Liab-Inc Tax Rec Thru Rates-Other	253.1

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1012	25626000	Reg Liab-Inc Tax Rec Thru Rates-ITC Gross-Up 3%	253.1
1012	25626100	Reg Liab-Inc Tax Rec Thru Rates-ITC Gross-Up 4%	253.1
1012	25626200	Reg Liab-Inc Tax Rec Thru Rates-ITC Gross-Up 10%	253.1
1012	25626300	Reg Liab-Inc Tax Rec Thru Rates-ITC Gross-Up 6%	253.1
1012	25626500	Reg Liab-Inc Tax Rec Thru Rates-ITC Gross-Up SIT	253.1
1012	25632000	Reg Liab - Revenue Stabilization	253.1
1012	25632100	Reg Liab - Property Tax Stabilization	253.1
1012	25632400	Reg Liab - Refund to Customers	253.1
1012	25632500	Reg Liab - Conservation Surcharge	253.1
1012	25632600	Reg Liab - Purchased Sewer Stabilization	253.1
1012	25632700	Reg Liab - Purchased Water Stabilization	253.1
1012	25632800	Reg Liab - Property Tax Settlement	253.1
1012	25632900	Reg Liab - PBOP Tracker	253.1
1012	25633000	Reg Liab - Pension Tracker	253.1
1012	25633100	Reg Liab - Tank Painting Tracker	253.1
1012	25633200	Reg Liab - Service Company Pension	253.1
1012	25633300	Reg Liab - PBOP	253.1
1012	25633400	Reg Liab - Pension Internal Reserve	253.1
1012	25633500	Reg Liab - Gain on Debt	253.1
1012	25633700	Reg Liab - Gain on Acquisition	253.1
1012	25633800	Reg Liab - Accrued Rate Case Expense	253.1
1012	25634100	Reg Liab - Property Sales in Suspense	253.1
1012	25634400	Reg Liab - CA Aerojet Project	253.1
1012	25634500	Reg Liab - MTBE Settlement	253.1
1012	25634600	Reg Liab - Atrazine Settlement	253.1
1012	25634800	Reg Liab - Def Revenue CIAC FIT	253.1
1012	25635500	Reg Liab - Refund of COR	253.1
1012	25689900	Reg Liab - Other	253.1
1012	25700000	Reg Liab - Cost of Removal	108.1
1012	25710000	Reg Liab - Cost of Removal RWIP	186.2
1012	26212000	Accrued Pension Expense	253.2
1012	26214000	Accrued Pension Expense ERP (SERP)	253.2
1012	26215000	Accrued Pension Expense ERP (SRP)	253.2
1012	26216000	Accrued Pension Exp ERP (Special Contract)	253.2
1012	26221000	Accrued OPEB NEI	253.2
1012	26221100	Accrued OPEB NEI	253.2
1012	26221500	Accrued OPEB Medicare Subsidy	253.2
1012	26233000	Deferred Revenue - CIAC	253.2
1012	26233100	Deferred Revenue - CIAC FIT	253.2
1012	26233200	Deferred Revenue - CIAC SIT	253.2
1012	26233300	Deferred Revenue - CAC	253.2
1012	26233800	Deferred Revenue - Tax Gross-Up AIC	253.2
1012	26233900	Deferred Revenue - Tax Gross-Up AIC FIT/SIT	253.2
1012	26234000	Deferred Revenue - Tax Gross-Up AIC SIT	253.2
1012	26237100	Deferred Revenue	253.2
1012	26237500	MPWMD Surcharge Collected for Others	253.2

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1012	26281100	Accrued Defined Contribution SERP	253.2
1012	26281150	Accrued NOAA Settlement	253.2
1012	26281200	Accrued 401k Restoration	253.2
1012	26281250	Accrued Asset Retirement Obligation Liability	253.2
1012	26281300	Deferred FAS 112 Costs	253.2
1012	26281350	Swap Contract FV Liability	253.2
1012	26281400	Extension Deposits in Suspense	253.2
1012	26281450	Advance Pay & Deposits	253.2
1012	26281500	Accrued Dividend Equivalents	253.2
1012	26281600	Property Sales in Suspense	253.2
1012	26281700	Deferred Compensation (prior 1/1/08)	253.2
1012	26281800	Non-Qualified Savings & Def Compensation	253.2
1012	26281900	Accrued Sick Bank	253.2
1012	26281997	Surcharge Clearing- WV B&O Tax (CIS)	253.2
1012	26281998	DCN-Deferred Credit Other - Not Tax Sensitive	253.2
1012	26281999	Accrued Long Term Liability - Other	253.2
1012	26282000	Accrued Long Term Liability - Other Interco	253.2
1012	26400000	Misc Operating Reserve	253.2
1012	26580000	FIN 48 Reserve - Federal	265.
1012	26581000	FIN 48 Reserve - State	265.
1012	27111000	CIAC-Non Taxable - Mains	271.
1012	27112000	CIAC-Non Taxable - Ext Dep	271.
1012	27113000	CIAC-Non Taxable - Services	271.
1012	27114000	CIAC-Non Taxable - Meters	271.
1012	27115000	CIAC-Non Taxable - Hydrants	271.
1012	27116000	CIAC-Non Taxable - Other	271.
1012	27116001	CIAC-Non Taxable - Other Spec Fac Fee	271.
1012	27116002	CIAC-Non Taxable - Other Terra Cotta	271.
1012	27116010	CIAC-Non Taxable - Other Gov Gmt Contamn Proceed	271.
1012	27116020	CIAC-Non Taxable - Other Gov Loan Contamn Proceed	271.
1012	27116030	CIAC-Non Taxable - Other Damg Awd Contamn Proceed	271.
1012	27116040	CIAC-Non Taxable - Other Settlmnt Contamn Proceed	271.
1012	27116051	CIAC-Non Taxable - Other Gvt Ord Contmn Pvt Funds	271.
1012	27116052	CIAC-Non Taxable - Other Gvt Ord Contmn Pub Funds	271.
1012	27116060	CIAC-Non Taxable - Other Insurance Contmn Proceed	271.
1012	27117000	CIAC-Non Taxable - WIP	271.
1012	27118000	CIAC-Non Taxable - Non-Utility Property Property	271.
1012	27121000	CIAC-Taxable - Mains	271.
1012	27122000	CIAC-Taxable - Ext Dep	271.
1012	27123000	CIAC-Taxable - Services	271.
1012	27124000	CIAC-Taxable - Meters	271.
1012	27125000	CIAC-Taxable - Hydrants	271.
1012	27126000	CIAC-Taxable - Other	271.
1012	27127000	CIAC-Taxable - WIP	271.
1012	27131000	CIAC-Taxable - Mains SIT	271.
1012	27133000	CIAC-Taxable - Services SIT	271.

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Company	G/L Account	Account Description	NARUC
1012	27135000	CIAC-Taxable - Hydrants SIT	271.
1012	27136000	CIAC-Taxable - Other SIT	271.
1012	27137000	CIAC-Taxable - WIP SIT	271.
1012	27141000	CIAC-Taxable - Mains FIT	271.
1012	27143000	CIAC-Taxable - Services FIT	271.
1012	27144000	CIAC-Taxable - Meters FIT	271.
1012	27145000	CIAC-Taxable - Hydrants FIT	271.
1012	27146000	CIAC-Taxable - Other FIT	271.
1012	27201000	Accum Amort CIAC - Mains	272.
1012	27203000	Accum Amort CIAC - Services	272.
1012	27204000	Accum Amort CIAC - Meters	272.
1012	27205000	Accum Amort CIAC - Hydrants	272.
1012	27206000	Accum Amort CIAC - Other	272.
1012	27210000	Accum Amort CIAC - Tax	272.
1012	29999999	999 Line JE Clearing	241.
1012	40111000	Residential Sales Billed	461.1
1012	40111001	Residential Sales Billed - Discount	461.1
1012	40111100	Residential Sales Billed Surcharge	461.1
1012	40111199	Residential Sales Billed Surcharge - Clearing	461.1
1012	40111200	Residential Sales Billed DSIC	461.1
1012	40111300	Residential Sales Billed Unmetered	460.
1012	40112000	Residential Sales Unbilled	461.1
1012	40121000	Commercial Sales Billed	461.2
1012	40121100	Commercial Sales Billed Surcharge	461.2
1012	40121200	Commercial Sales Billed DSIC	461.2
1012	40121300	Commercial Sales Billed Unmetered	460.
1012	40122000	Commercial Sales Unbilled	461.2
1012	40131000	Industrial Sales Billed	461.3
1012	40131100	Industrial Sales Billed Surcharge	461.3
1012	40131200	Industrial Sales Billed DSIC	461.3
1012	40132000	Industiral Sales Unbilled	461.3
1012	40138000	Accrued Revenue Stabilization	461.1
1012	40138200	Accrued Property Tax Rev Stblztn	461.1
1012	40141000	Public Fire Billed	462.1
1012	40141100	Public Fire Billed Surcharge	462.1
1012	40141200	Public Fire Billed DSIC	462.1
1012	40142000	Public Fire Unbilled	462.1
1012	40145000	Private Fire Billed	462.2
1012	40145100	Private Fire Billed Surcharge	462.2
1012	40145200	Private Fire Billed DSIC	462.2
1012	40146000	Private Fire Unbilled	462.2
1012	40151000	Public Authority Billed	461.4
1012	40151100	Public Authority Billed Surcharge	461.4
1012	40151200	Public Authority Billed DSIC	461.4
1012	40152000	Public Authority Unbilled	461.4
1012	40161000	Sales for Resale Billed	466.

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Company	G/L Account	Account Description	NARUC
1012	40161050	Sales for Resale Billed Interco	467.
1012	40161100	Sales for Resale Billed Surcharge	466.
1012	40161200	Sales for Resale Billed DSIC	466.
1012	40161250	Sales for Resale Billed DSIC Interco	466.
1012	40162000	Sales for Resale Unbilled	466.
1012	40171000	Misc Sales Billed	474.
1012	40171100	Misc Sales Billed Surcharge	474.
1012	40171300	Misc Sales Billed Unmetered	474.
1012	40172000	Misc Sales Unbilled	474.
1012	40175100	Misc Sales ORCOM Errors	474.
1012	40180100	Other Water Revenue - Temp Service	471.
1012	40180200	Other Water Revenue - Conservation	472.
1012	40180300	Other Water Revenue - Amort Def CIAC	474.
1012	40189900	Other Water Revenue	474.
1012	40211000	Domestic WW Service Billed	522.1
1012	40211001	Domestic WW Service Billed Bimonthly	522.1
1012	40211100	Domestic WW Service Billed Surcharge	522.1
1012	40211200	Domestic WW Service Billed DSIC	522.1
1012	40211300	Domestic WW Service Billed CGCR	522.1
1012	40212000	Domestic WW Service Unbilled	522.1
1012	40221000	Commerical WW Service Billed	522.2
1012	40221100	Commerical WW Service Billed Surcharge	522.2
1012	40221200	Commercial WW Service Billed DSIC	522.1
1012	40221300	Commerical WW Service Billed CGCR	522.2
1012	40222000	Commercial WW Service Unbilled	522.2
1012	40231000	Industrial WW Service Billed	522.3
1012	40231100	Industrial WW Service Billed Surcharge	522.3
1012	40231200	Industrial WW Service Billed DSIC	522.1
1012	40231300	Industrial WW Service Billed CGCR	522.3
1012	40232000	Industrial WW Service Unbilled	522.3
1012	40251000	Public Authority WW Service Billed	522.4
1012	40251100	Public Authority WW Service Billed Surcharge	522.4
1012	40251200	Public Authority WW Service Billed DSIC	522.1
1012	40251300	Public Authority WW Service Billed CGCR	522.4
1012	40252000	Public Authority WW Service Unbilled	522.4
1012	40261200	Sale for Resale WW Service Billed DSIC	522.1
1012	40271000	Misc WW Service Billed	522.4
1012	40271200	Misc Sales WW Service Billed DSIC	522.1
1012	40271300	Misc WW Service Billed CGCR	522.4
1012	40272000	Misc WW Service Unbilled	522.4
1012	40280000	Other Revenue WW - Guaranteed	536.
1012	40290000	Other Revenue WW - Intercompany	536.
1012	40300100	Other Revenue - Interco	469.
1012	40310000	Other Revenue - Guaranteed	469.
1012	40310100	Other Revenue - Late Payment Charge	470.
1012	40310200	Other Revenue - Rent	472.

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Company	G/L Account	Account Description	NARUC
1012	40310250	Other Revenue - Rent Interco	473.
1012	40310300	Other Revenue - Collection for Others	471.
1012	40310400	Other Revenue - NSF Check Charge	471.
1012	40310500	Other Revenue - Application/Initiation Fee	471.
1012	40310600	Other Revenue - Usage Data	471.
1012	40310700	Other Revenue - Reconnection Fee	471.
1012	40310800	Other Revenue - Frozen Meter	471.
1012	40310900	Other Revenue - CFO - CA PUC Surcharge	471.
1012	40311600	Other Revenue - Storage Fees	472.
1012	40313000	Other Revenue - After Hrs Charge	471.
1012	40319900	Other Revenue - Misc Service	471.
1012	40351100	Other Revenue WW - Late Payment Charge	532.
1012	40359900	Other Revenue WW - Misc Service	536.
1012	40999999	Revenue Conversion - CIS	536.
1012	45000000	Service Company Revenue OPEX Interco	471.
1012	45000001	Service Company Revenue CAPEX Interco	471.
1012	45000002	Servco Company Revenue Market Based COs Interco	471.
1012	50100000	Labor Natural Account	601.8
1012	50100001	Labor Expense Accrual	601.8
1012	50100002	Labor Expense - Intercompany	601.8
1012	50101100	Labor Oper Source of Supply	601.1
1012	50101105	Labor Oper Source of Supply - Super & Eng	601.1
1012	50101200	Labor Oper Pumping	601.1
1012	50101205	Labor Oper Pumping - Super & Eng	601.1
1012	50101210	Labor Oper Pumping - Power Prod	601.1
1012	50101215	Labor Oper Pumping - Pump	601.1
1012	50101300	Labor Oper Water Treatment	601.3
1012	50101305	Labor Oper Water Treatment - Super & Eng	601.3
1012	50101400	Labor Oper Transmission & Distribution	601.5
1012	50101405	Labor Oper Trans & Distr - Super & Eng	601.5
1012	50101410	Labor Oper Trans & Distr - Storage Facility	601.5
1012	50101415	Labor Oper Trans & Distr - Lines	601.5
1012	50101420	Labor Oper Trans & Distr - Meter	601.5
1012	50101425	Labor Oper Trans & Distr - Meter Install	601.5
1012	50101500	Labor Oper Customer Accounting	601.7
1012	50101505	Labor Oper Customer Acctg - Super & Eng	601.7
1012	50101510	Labor Oper Customer Acctg - Meter Read	601.7
1012	50101515	Labor Oper Customer Acctg - Cust Rec & Coll	601.7
1012	50101520	Labor Oper Customer Acctg - Cust Serv & Info	601.7
1012	50101600	Labor Oper Admin & General	601.8
1012	50101601	Labor Oper Adm & Gen - Director & Officer	603.8
1012	50102100	Labor Maint Source of Supply	601.2
1012	50102105	Labor Maint Source of Supply - Super & Eng	601.2
1012	50102110	Labor Maint Source of Supply - Struct &Imp	601.2
1012	50102115	Labor Maint Source of Supply - Coll & Imp	601.2
1012	50102120	Labor Maint Source of Supply - Lake	601.2

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Company	G/L Account	Account Description	NARUC
1012	50102125	Labor Maint Source of Supply - Wells	601.2
1012	50102130	Labor Maint Src of Supply-Infilt Galleries	601.2
1012	50102135	Labor Maint Src of Supply-Supply Mains	601.2
1012	50102200	Labor Maint Pumping	601.2
1012	50102205	Labor Maint Pumping - Super & Eng	601.2
1012	50102210	Labor Maint Pumping - Struct & Imp	601.2
1012	50102215	Labor Maint Pumping - Power Prod	601.2
1012	50102300	Labor Maint Water Treatment	601.4
1012	50102305	Labor Maint Water Treatment - Super & Eng	601.4
1012	50102310	Labor Maint Water Treatment - Struct & Imp	601.4
1012	50102315	Labor Maint Water Treatment - Equipment	601.4
1012	50102400	Labor Maint Transmission & Distribution	601.6
1012	50102405	Labor Maint Transmssn & Distr - Super & Eng	601.6
1012	50102410	Labor Maint Transmssn & Distr - Struct & Imp	601.6
1012	50102415	Labor Maint Transmssn & Distr - Dist Res	601.6
1012	50102420	Labor Maint Transmssn & Distr - Mains	601.6
1012	50102425	Labor Maint Transmssn & Distr - Fire Mains	601.6
1012	50102430	Labor Maint Transmssn & Distr - Service	601.6
1012	50102435	Labor Maint Transmssn & Distr - Meter	601.6
1012	50102440	Labor Maint Transmssn & Distr - Hydrants	601.6
1012	50102600	Labor Maint Admin & General	601.8
1012	50109900	Labor Capitalized Credits	601.8
1012	50110000	Labor Non-scheduled Overtime - Natural Account	601.8
1012	50111100	Labor Oper Non-scheduled Overtime- SS	601.1
1012	50111105	Labor Oper Non-scheduled Overtime- SS Super & Eng	601.1
1012	50111200	Labor Oper Non-scheduled Overtime- P	601.1
1012	50111205	Labor Oper Non-scheduled Overtime- P Super & Eng	601.1
1012	50111210	Labor Oper Non-scheduled Overtime- P Power Prod	601.1
1012	50111215	Labor Oper Non-scheduled Overtime- P Pump	601.1
1012	50111300	Labor Oper Non-scheduled Overtime- WT	601.3
1012	50111305	Labor Oper Non-scheduled Overtime- WT Super & Eng	601.3
1012	50111400	Labor Oper Non-scheduled Overtime- TD	601.5
1012	50111405	Labor Oper Non-scheduled Overtime- TD Super & Eng	601.5
1012	50111410	Labor Oper Non-scheduled OT-TD Storage Facility	601.5
1012	50111415	Labor Oper Non-scheduled Overtime- TD Lines	601.5
1012	50111420	Labor Oper Non-scheduled Overtime- TD Meter	601.5
1012	50111425	Labor Oper Non-scheduled OT-TD Meter Install	601.5
1012	50111500	Labor Oper Non-scheduled Overtime- CA	601.7
1012	50111505	Labor Oper Non-scheduled Overtime- CA Super & Eng	601.7
1012	50111510	Labor Oper Non-scheduled Overtime- CA Meter Read	601.7
1012	50111515	Labor Oper Non-scheduled OT - CA Cust Rec & Coll	601.7
1012	50111520	Labor Oper Non-scheduled OT - CA Cust Serv & Info	601.7
1012	50111600	Labor Oper Non-scheduled Overtime- AG	601.8
1012	50112100	Labor Maint Non-scheduled Overtime- SS	601.2
1012	50112105	Labor Maint Non-scheduled Overtime- SS Super & Eng	601.2
1012	50112110	Labor Maint Non-scheduled OT - SS Struct & Imp	601.2

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Company	G/L Account	Account Description	NARUC
1012	50112115	Labor Maint Non-scheduled Overtime- SS Coll & Imp	601.2
1012	50112120	Labor Maint Non-scheduled Overtime- SS Lake	601.2
1012	50112125	Labor Maint Non-scheduled Overtime- SS Wells	601.2
1012	50112130	Labor Maint Non-scheduled OT - SS Infilt Gallery	601.2
1012	50112135	Labor Maint Non-scheduled OT - SS Supply Mains	601.2
1012	50112200	Labor Maint Non-scheduled Overtime- P	601.2
1012	50112205	Labor Maint Non-scheduled Overtime- P Super & Eng	601.2
1012	50112210	Labor Maint Non-scheduled Overtime- P Struct & Imp	601.2
1012	50112215	Labor Maint Non-scheduled Overtime- P Power Prod	601.2
1012	50112300	Labor Maint Non-scheduled Overtime- WT	601.4
1012	50112305	Labor Maint Non-scheduled Overtime- WT Super & Eng	601.4
1012	50112310	Labor Maint Non-scheduled OT - WT Struct & Imp	601.4
1012	50112315	Labor Maint Non-scheduled Overtime- WT Equipment	601.4
1012	50112400	Labor Maint Non-scheduled Overtime- TD	601.6
1012	50112405	Labor Maint Non-scheduled Overtime- TD Super & Eng	601.6
1012	50112410	Labor Maint Non-scheduled OT - TD Struct & Imp	601.6
1012	50112415	Labor Maint Non-scheduled Overtime- TD Dist Res	601.6
1012	50112420	Labor Maint Non-scheduled Overtime- TD Mains	601.6
1012	50112425	Labor Maint Non-scheduled Overtime- TD Fire Main	601.6
1012	50112430	Labor Maint Non-scheduled Overtime- TD Service	601.6
1012	50112435	Labor Maint Non-scheduled Overtime- TD Meter	601.6
1012	50112440	Labor Maint Non-scheduled Overtime- TD Hydrant	601.6
1012	50112600	Labor Maint Non-scheduled Overtime- AG	601.8
1012	50119900	Labor Non-scheduled Overtime- Capitalized Credits	601.8
1012	50120000	Labor Overtime - Natural Account	601.8
1012	50121100	Labor Oper Scheduled Overtime-SS	601.1
1012	50121105	Labor Oper Scheduled Overtime-SS Super & Eng	601.1
1012	50121200	Labor Oper Scheduled Overtime-P	601.1
1012	50121205	Labor Oper Scheduled Overtime-P Super & Eng	601.1
1012	50121210	Labor Oper Scheduled Overtime-P Power Prod	601.1
1012	50121215	Labor Oper Scheduled Overtime-P Pump	601.1
1012	50121300	Labor Oper Scheduled Overtime-WT	601.3
1012	50121305	Labor Oper Scheduled Overtime-WT Super & Eng	601.3
1012	50121400	Labor Oper Scheduled Overtime-TD	601.5
1012	50121405	Labor Oper Scheduled Overtime-TD Super & Eng	601.5
1012	50121410	Labor Oper Scheduled Overtime-TD Storage Facility	601.5
1012	50121415	Labor Oper Scheduled Overtime-TD Lines	601.5
1012	50121420	Labor Oper Scheduled Overtime-TD Meter	601.5
1012	50121425	Labor Oper Scheduled Overtime-TD Meter Install	601.5
1012	50121500	Labor Oper Scheduled Overtime-CA	601.7
1012	50121505	Labor Oper Scheduled Overtime-CA Super & Eng	601.7
1012	50121510	Labor Oper Scheduled Overtime-CA Merer Read	601.7
1012	50121515	Labor Oper Scheduled Overtime-CA Cust Rec & Coll	601.7
1012	50121520	Labor Oper Scheduled Overtime-CA Cust Serv & Info	601.7
1012	50121600	Labor Oper Scheduled Overtime-AG	601.8
1012	50122100	Labor Maint Scheduled Overtime-SS	601.2

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Company	G/L Account	Account Description	NARUC
1012	50122105	Labor Maint Scheduled Overtime-SS Super & Eng	601.2
1012	50122110	Labor Maint Scheduled Overtime-SS Struct & Imp	601.2
1012	50122115	Labor Maint Scheduled Overtime-SS Coll & Imp	601.2
1012	50122120	Labor Maint Scheduled Overtime-SS Lake	601.2
1012	50122125	Labor Maint Scheduled Overtime-SS Wells	601.2
1012	50122130	Labor Maint Scheduled Overtime-SS Infilt Gallery	601.2
1012	50122135	Labor Maint Scheduled Overtime-SS Supply Main	601.2
1012	50122200	Labor Maint Scheduled Overtime-P	601.2
1012	50122205	Labor Maint Scheduled Overtime-P Super & Eng	601.2
1012	50122210	Labor Maint Scheduled Overtime-P Struct & Imp	601.2
1012	50122215	Labor Maint Scheduled Overtime-P Power Prod	601.2
1012	50122300	Labor Maint Scheduled Overtime-WT	601.4
1012	50122305	Labor Maint Scheduled Overtime-WT Super & Eng	601.4
1012	50122310	Labor Maint Scheduled Overtime-WT Struct & Imp	601.4
1012	50122315	Labor Maint Scheduled Overtime-WT Equipment	601.4
1012	50122400	Labor Maint Scheduled Overtime-TD	601.6
1012	50122405	Labor Maint Scheduled Overtime-TD Super & Eng	601.6
1012	50122410	Labor Maint Scheduled Overtime-TD Struct & Imp	601.6
1012	50122415	Labor Maint Scheduled Overtime-TD Dist Res	601.6
1012	50122420	Labor Maint Scheduled Overtime-TD Mains	601.6
1012	50122425	Labor Maint Scheduled Overtime-TD Fire Main	601.6
1012	50122430	Labor Maint Scheduled Overtime-TD Service	601.6
1012	50122435	Labor Maint Scheduled Overtime-TD Meter	601.6
1012	50122440	Labor Maint Scheduled Overtime-TD Hydrant	601.6
1012	50122600	Labor Maint Scheduled Overtime-AG	601.8
1012	50129900	Labor Scheduled Overtime- Capitalized Credits	601.8
1012	50171000	Annual Incentive Plan	601.8
1012	50171100	Annual Incentive Plan Cap Credits	601.8
1012	50171600	Compensation Exp - Options	601.8
1012	50171800	Compensation Exp - RSU's	601.8
1012	50185000	Severance	601.8
1012	50421000	401k Expense	604.8
1012	50421100	401k Expense Cap Credits	604.8
1012	50422000	Defined Compensation Plan Expense	604.8
1012	50422100	Defined Comp Plan Exp Cap Credits	604.8
1012	50423000	Employee Stock Purchase Plan Expense	604.8
1012	50424000	DC SERP Expense	604.8
1012	50425000	401k Restoration Expense	604.8
1012	50426000	Retiree Medical Expense	604.8
1012	50426100	Retiree Medical Expense Cap Credits	604.8
1012	50427000	FAS 112 Amortization	604.8
1012	50450000	Other Welfare - Natural Account	604.8
1012	50450011	Other Welfare - Source of Supply	604.1
1012	50450012	Other Welfare - Pumping	604.1
1012	50450013	Other Welfare - Water Treatment	604.3
1012	50450014	Other Welfare - Transm & Distrib	604.5

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Company	G/L Account	Account Description	NARUC
1012	50450015	Other Welfare - Customer Accounting	604.7
1012	50450016	Other Welfare - Admin & General	604.8
1012	50451000	Employee Awards	604.8
1012	50452000	Employee Physical Exams	604.8
1012	50454000	Safety Incentive Awards	604.8
1012	50456000	Tuition Aid	604.8
1012	50457000	Training	604.8
1012	50458000	Referral Bonus	604.8
1012	50510000	PBOP Expense	604.8
1012	50510100	PBOP Capitalized Credits	604.8
1012	50550000	Group Insurance Expense	604.8
1012	50550100	Group Insurance Capitalized Credits	604.8
1012	50610000	Pension Expense	604.8
1012	50610100	Pension Capitalized Credits	604.8
1012	50620000	Pension Expense - SRP	604.8
1012	50630000	Pension Expense - SERP	604.8
1012	51010000	Purchased Water	610.1
1012	51010500	PWAC Differential	675.8
1012	51015000	Purchased Water Interco	610.1
1012	51020000	Diversion Rights	610.1
1012	51110000	Waste Disposal	675.3
1012	51110500	PSTAC Differential	675.8
1012	51110600	PSTAC Amortization	675.8
1012	51115000	Waste Disposal Interco	675.3
1012	51120000	Amort Waste Disposal	675.3
1012	51510000	Purchased Power - Natural Account	615.8
1012	51510011	Purchased Power - Source of Supply	615.1
1012	51510012	Purchased Power - Pumping	615.1
1012	51510013	Purchased Power - Water Treatment	615.3
1012	51510014	Purchased Power - Transmission & Distribution	615.5
1012	51510015	Purchased Power - Customer Accounting	615.7
1012	51510016	Purchased Power - Admin & General	615.8
1012	51510500	Purchased Power Balancing Account	615.1
1012	51520000	Fuel for Power Production	616.1
1012	51800000	Chemicals	618.3
1012	51850000	Chemicals Carbon Interco	618.3
1012	52000000	M & S (O&M) - Natural Account	620.5
1012	52001000	M&S Expense (O&M)	620.5
1012	52001100	M & S Oper - Source of Supply	620.1
1012	52001200	M & S Oper - Pumping	620.1
1012	52001300	M & S Oper - Water Treatment	620.3
1012	52001400	M & S Oper - Transmission & Distribution	620.5
1012	52001500	M & S Oper - Customer Accounting	620.7
1012	52001600	M & S Oper - Admin & General	620.8
1012	52500000	Misc Exp (O&M) - Natural Acct	675.8
1012	52501100	Misc Oper - Source of Supply	675.1

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Company	G/L Account	Account Description	NARUC
1012	52501200	Misc Oper - Pumping	675.1
1012	52501300	Misc Oper - Water Treatment	675.3
1012	52501400	Misc Oper - Transmission & Distribution	675.5
1012	52501410	Misc Oper - Transmission & Distribution Storage	675.5
1012	52501415	Misc Oper - Transmission & Distribution Mains	675.5
1012	52501420	Misc Oper - Transmission & Distribution Meters	675.5
1012	52501425	Misc Oper - Transmssn & Distr Meter Install	675.5
1012	52501500	Misc Oper - Customer Accounting	675.7
1012	52501510	Misc Oper - Customer Accounting Mtr Read	675.7
1012	52501515	Misc Oper - Customer Accounting Cust Rec	675.7
1012	52501520	Misc Oper - Customer Accounting Cust Serv	675.7
1012	52501600	Misc Oper - Admin & General	675.8
1012	52503000	Advertising	660.8
1012	52510000	Bank Service Charges - Natural Account	675.8
1012	52510015	Bank Service Charges - Customer Accounting	675.7
1012	52510016	Bank Service Charges - Admin & General	675.8
1012	52512500	Books & Publications	675.8
1012	52513200	Business Development	675.8
1012	52514000	Charitable Contribution Deductible	675.8
1012	52514100	Charitable Contribution Nondeductible	675.8
1012	52514500	Charitable Donations - Health/Education/Environmnt	675.8
1012	52514600	Charitable Donations - Community	675.8
1012	52514700	Community Partnerships	675.8
1012	52514800	Community Commercial Initiatives	675.8
1012	52514900	Customer Education	675.8
1012	52514901	Customer Education Communication - Reg	675.8
1012	52514902	Customer Education Communication - Third Party	675.8
1012	52514903	Customer Education Communication - Issues	675.8
1012	52514904	Customer Education Communication - Conservation	675.8
1012	52514905	Customer Education Communication - Printed	675.8
1012	52514906	Customer Education - Bill Inserts	675.8
1012	52514907	Customer Education - Press Releases	675.8
1012	52514908	Customer Education - Media Editorial	675.8
1012	52514909	Customer Education - Video & Photo	675.8
1012	52514910	Customer Education - Online Development/Production	675.8
1012	52515000	Community Relations - Events	675.8
1012	52515001	Community Relations - Specialty	675.8
1012	52520000	Collection Agencies	675.7
1012	52522000	Community Relations	675.8
1012	52524000	Co Dues/Membership Deductible	675.8
1012	52525000	Condemnation Costs	675.8
1012	52525500	Conservation Expense	675.8
1012	52526000	Credit Line Fees	675.8
1012	52526100	Credit Line Fees Interco	675.8
1012	52527000	Directors Fees	675.8
1012	52527100	Directors Expenses	675.8

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Company	G/L Account	Account Description	NARUC
1012	52528000	Dues/Membership Deductible	675.8
1012	52532000	Electricity - Natural Account	675.8
1012	52532011	Electricity - Source of Supply	675.1
1012	52532013	Electricity - Water Treatment	675.3
1012	52532014	Electricity - Transmission & Distribution	675.5
1012	52532015	Electricity - Customer Accounting	675.7
1012	52532016	Electricity - Admin & General	675.8
1012	52534000	Employee Expenses	675.8
1012	52534021	Travel - Meals	675.8
1012	52534200	Conferences & Registration	675.8
1012	52535000	Meals Deductible	675.8
1012	52535100	Meals Non-Deductible	675.8
1012	52540000	Amort Bus Services Proj Exp	675.8
1012	52542000	Forms - Natural Account	675.8
1012	52542015	Forms - Customer Accounting	675.7
1012	52542016	Forms - Admin & General	675.8
1012	52546000	Grounds Keeping - Natural Account	675.8
1012	52546011	Grounds Keeping - Source of Supply	675.1
1012	52546013	Grounds Keeping - Water Treatment	675.3
1012	52546014	Grounds Keeping - Transmission & Distribution	675.5
1012	52546016	Grounds Keeping - Admin & General	675.8
1012	52548000	Heating Oil/Gas - Natural Account	675.8
1012	52548011	Heating Oil/Gas - Source of Supply	675.1
1012	52548013	Heating Oil/Gas - Water Treatment	675.3
1012	52548014	Heating Oil/Gas - Transmission & Distribution	675.5
1012	52548015	Heating Oil/Gas - Customer Accounting	675.7
1012	52548016	Heating Oil/Gas - Admin & General	675.8
1012	52548100	Hiring Costs	675.8
1012	52549000	Injuries and Damages	675.8
1012	52549500	Inventory Physical Write-off Scrap	675.8
1012	52550000	Janitorial - Natural Account	675.8
1012	52550012	Janitorial - Pumping	675.1
1012	52550013	Janitorial - Water Treatment	675.3
1012	52550014	Janitorial - Transmission & Distribution	675.5
1012	52550015	Janitorial - Customer Accounting	675.7
1012	52550016	Janitorial - Admin & General	675.8
1012	52554500	Lab Supplies	675.3
1012	52556000	Lobbying Expenses	675.8
1012	52556500	Low Income Pay Program	675.8
1012	52562000	Office & Admin Supplies - Natural Account	675.8
1012	52562011	Office & Admin Supplies - Source of Supply	675.1
1012	52562013	Office & Admin Supplies - Water Treatment	675.3
1012	52562014	Office & Admin Supplies - Transmssn & Distr	675.5
1012	52562015	Office & Admin Supplies - Customer Accounting	675.7
1012	52562016	Office & Admin Supplies - Admin & General	675.8
1012	52562500	Overnight Shipping - Natural Account	675.8

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Company	G/L Account	Account Description	NARUC
1012	52562511	Overnight Shipping - Source of Supply	675.1
1012	52562513	Overnight Shipping - Water Treatment	675.3
1012	52562514	Overnight Shipping - Transmission & Distribution	675.5
1012	52562515	Overnight Shipping - Customer Accounting	675.7
1012	52562516	Overnight Shipping - Admin & General	675.8
1012	52564000	Penalties Nondeductible	675.8
1012	52566000	Postage - Natural Account	675.8
1012	52566015	Postage - Customer Accounting	675.7
1012	52566016	Postage - Admin & General	675.8
1012	52566700	Printing	675.8
1012	52567000	Relocation Expenses	675.8
1012	52568000	Research & Development	675.8
1012	52571000	Security Service - Natural Account	675.8
1012	52571011	Security Service - Source of Supply	675.1
1012	52571013	Security Service - Water Treatment	675.3
1012	52571014	Security Service - Transmission & Distribution	675.5
1012	52571015	Security Service - Customer Accounting	675.7
1012	52571016	Security Service - Admin & General	675.8
1012	52571100	Add'l Security Costs	675.8
1012	52571500	Software Licenses	675.8
1012	52572000	Telemetering - Source of Supply	675.1
1012	52574000	Telephone - Natural Account	675.8
1012	52574011	Telephone - Source of Supply	675.1
1012	52574013	Telephone - Water Treatment	675.3
1012	52574014	Telephone - Transmission & Distribution	675.5
1012	52574015	Telephone - Customer Accounting	675.7
1012	52574016	Telephone - Admin & General	675.8
1012	52574100	Cell Phone - Natural Account	675.8
1012	52574111	Cell Phone - Source of Supply	675.1
1012	52574113	Cell Phone - Water Treatment	675.3
1012	52574114	Cell Phone - Transmission & Distribution	675.5
1012	52574115	Cell Phone - Customer Accounting	675.7
1012	52574116	Cell Phone - Admin & General	675.8
1012	52574200	Data Lines - Admin & General	675.8
1012	52574300	Wireless - Service First - Natural Account	675.8
1012	52574314	Wireless - Service First-Transmission&Distribution	675.5
1012	52574315	Wireless - Service First - Customer Accounting	675.7
1012	52574316	Wireless - Service First - Admin & General	675.8
1012	52577500	Trade Shows	675.8
1012	52578000	Trash Removal - Natural Account	675.8
1012	52578011	Trash Removal - Source of Supply	675.1
1012	52578013	Trash Removal - Water Treatment	675.3
1012	52578014	Trash Removal - Transmission & Distribution	675.5
1012	52578015	Trash Removal - Customer Accounting	675.7
1012	52578016	Trash Removal - Admin & General	675.8
1012	52579000	Trustee Fees	675.8

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1012	52582000	Uniforms - Natural Account	675.7
1012	52582011	Uniforms - Source of Supply	675.1
1012	52582012	Uniforms - Pumping	675.3
1012	52582013	Uniforms - Water Treatment	675.3
1012	52582014	Uniforms - Transmission & Distribution	675.5
1012	52582015	Uniforms - Customer Accounting	675.7
1012	52582016	Uniforms - Admin & General	675.7
1012	52583000	Water & WW - Natural Account	675.8
1012	52583011	Water & WW - Source of Supply	675.1
1012	52583013	Water & WW - Water Treatment	675.3
1012	52583014	Water & WW - Transmission & Distribution	675.5
1012	52583016	Water & WW - Admin & General	675.8
1012	52585000	Discounts Available	675.8
1012	52585100	Discounts Lost	675.8
1012	52586000	PO Small Price Differences - within tolerance	675.8
1012	52599800	PCard Undistributed	675.8
1012	52801000	Capital Purchases Clearing	675.8
1012	52801100	Indirect Overhead Clearing	675.8
1012	52801200	Capital Accrual Clearing	675.8
1012	52801500	Dev Funded Const Clearing	675.8
1012	52805000	Budget COR Clearing	675.8
1012	52805100	Indirect Overhead RWIP Clearing	675.8
1012	53110000	Contract Svc-Eng - Natural Account	631.8
1012	53110011	Contract Svc-Eng - Source of Supply	631.1
1012	53110013	Contract Svc-Eng - Water Treatment	631.3
1012	53110014	Contract Svc-Eng - Transmission & Distribution	631.5
1012	53110015	Contract Svc-Eng - Customer Accounting	631.7
1012	53110016	Contract Svc-Eng - Admin & General	631.8
1012	53150000	Contract Svc-Other - Natural Account	636.8
1012	53150011	Contract Svc-Other - Source of Supply	636.1
1012	53150013	Contract Svc-Other - Water Treatment	636.3
1012	53150014	Contract Svc-Other - Transmission & Distribution	636.5
1012	53150015	Contract Svc-Other - Customer Accounting	636.7
1012	53150016	Contract Svc-Other - Admin & General	636.8
1012	53151000	Contract Svc-Temp Empl - Natural Account	636.8
1012	53151011	Contract Svc-Temp Empl - Source of Supply	636.1
1012	53151013	Contract Svc-Temp Empl - Water Treatment	636.3
1012	53151014	Contract Svc-Temp Empl - Transmssn & Distr	636.5
1012	53151015	Contract Svc-Temp Empl - Customer Accounting	636.7
1012	53151016	Contract Svc-Temp Empl - Admin & General	636.8
1012	53152000	Contract Svc-Lab Testing - Water Treatment	635.3
1012	53153000	Contract Services - Accounting	632.8
1012	53154000	Contract Services - Audit Fees	632.8
1012	53155000	Contract Services - Legal	633.8
1012	53156000	Contract Services - Litigation	633.8
1012	53157000	Contract Services - Outplacement	675.8

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Company	G/L Account	Account Description	NARUC
1012	53158000	Contract Services - BT Related Incr Ext Costs	636.8
1012	53159000	Contract Services - Centrally Sponsored Projects	633.8
1012	53185000	Contract Services - Interco	636.8
1012	53401000	AWWSC Services - Labor OPEX	634.8
1012	53401100	AWWSC Services - Pension OPEX	634.8
1012	53401200	AWWSC Services - Group Insurance OPEX	634.8
1012	53401300	AWWSC Services - Other Benefits OPEX	634.8
1012	53401400	AWWSC Services - Contracted Services OPEX	634.8
1012	53401500	AWWSC Services - Office Supplies OPEX	634.8
1012	53401600	AWWSC Transportaion	634.8
1012	53401700	AWWSC Services - Rents OPEX	634.8
1012	53401800	AWWSC Other Operating Supplies	634.8
1012	53401900	AWWSC Services - Maint Supplies & Svcs OPEX	634.8
1012	53402100	AWWSC Services - Other O&M Expense OPEX	634.8
1012	53402200	AWWSC Services - Depr & Amort OPEX	634.8
1012	53402300	AWWSC Services - General Taxes OPEX	634.8
1012	53402400	AWWSC Services - Net Interest OPEX	634.8
1012	53402500	AWWSC Services - Other Inc & Ded OPEX	634.8
1012	53402600	AWWSC Services - Income Taxes OPEX	634.8
1012	53409999	AWWSC Services - Conversion	634.8
1012	53481000	AWWSC Services - Labor CAPX	634.8
1012	53481100	AWWSC Services - Pension CAPX	634.8
1012	53481200	AWWSC Services - Group Insurance CAPX	634.8
1012	53481300	AWWSC Services - Other Benefits CAPX	634.8
1012	53481400	AWWSC Services - Contracted Services CAPX	634.8
1012	53481500	AWWSC Services - Office Supplies CAPX	634.8
1012	53481700	AWWSC Services - Rents CAPX	634.8
1012	53481900	AWWSC Services - Maint Supplies & Svcs CAPX	634.8
1012	53482100	AWWSC Services - Other O&M Expense CAPX	634.8
1012	53482200	AWWSC Services - Depr & Amort CAPX	634.8
1012	53482300	AWWSC Services - General Taxes CAPX	634.8
1012	53482400	AWWSC Services - Net Interest CAPX	634.8
1012	53482500	AWWSC Services - Other Inc & Ded CAPX	634.8
1012	53482600	AWWSC Services - Income Taxes CAPX	634.8
1012	54110000	Rents-Real Property - Natural Account	641.8
1012	54110011	Rents-Real Property - Source of Supply	641.1
1012	54110012	Rents-Real Property - Pumping	641.1
1012	54110013	Rents-Real Property - Water Treatment	641.3
1012	54110014	Rents-Real Property - Transmission & Distribution	641.5
1012	54110015	Rents-Real Property - Customer Accounting	641.7
1012	54110016	Rents-Real Property - Admin & General	641.8
1012	54115000	Rents-Real Property Interco	641.8
1012	54140000	Rents-Equipment - Natural Account	642.8
1012	54140011	Rents-Equipment - Source of Supply	642.1
1012	54140012	Rents-Equipment - Pumping	642.1
1012	54140013	Rents-Equipment - Water Treatment	642.3

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Company	G/L Account	Account Description	NARUC
1012	54140014	Rents-Equipment - Transmission & Distribution	642.5
1012	54140015	Rents-Equipment - Customer Accounting	642.7
1012	54140016	Rents-Equipment - Admin & General	642.8
1012	54145000	Rents-Equipment Intercompany	641.8
1012	55000000	Transportation (O&M) - Natural Account	650.8
1012	55000010	Transportation Expense	650.8
1012	55000011	Transportation Oper - Source of Supply	650.1
1012	55000012	Transportation Oper - Pumping	650.1
1012	55000013	Transportation Oper - Water Treatment	650.3
1012	55000014	Transportation Oper - Transmission & Distribution	650.5
1012	55000015	Transportation Oper - Customer Accounting	650.7
1012	55000016	Transportation Oper - Admin & General	650.8
1012	55000021	Transportation Maint - Source of Supply	650.2
1012	55000022	Transportation Maint - Pumping	650.2
1012	55000023	Transportation Maint - Water Treatment	650.4
1012	55000024	Transportation Maint - Transmission & Distribution	650.6
1012	55000026	Transportation Maint - Admin & General	650.8
1012	55000100	Transportation Capitalized Credits	650.8
1012	55010100	Transportation Lease Costs	650.8
1012	55010200	Transportation Lease Fuel	650.8
1012	55010300	Transportation Lease Maint	650.8
1012	55010400	Transportation - Employee Reimbursement to Company	650.8
1012	55010500	Transportation - Reimburse Employee Personal Use	650.8
1012	55020000	Fuel - Physical Inventory Write-off Scrap	650.8
1012	55110000	Insurance Vehicle	656.8
1012	55115000	Insurance Vehicle - Intercompany	656.8
1012	55710000	Insurance General Liabilty	657.8
1012	55715000	Insurance General Liabilty - Intercompany	657.8
1012	55720000	Insurance Workers Compensation	658.8
1012	55720100	Insurance WC Capitalized Credits	658.8
1012	55725000	Insurance Workers Compensation - Intercompany	658.8
1012	55730000	Insurance Other	659.8
1012	55735000	Insurance Other - Intercompany	659.8
1012	55740000	Insurance Property	659.8
1012	55745000	Insurance Property - Intercompany	659.8
1012	56610000	Regulatory Exp - Amortization	666.8
1012	56611000	Regulatory Exp - Not Authorized	666.8
1012	56620000	Regulatory Exp - Amort Depreciation Study	667.8
1012	56630000	Regulatory Exp - Amort Management Study	667.8
1012	56670000	Regulatory Exp - Other	667.8
1012	57010000	Uncollectible Accounts Exp - Natural Account	670.7
1012	57010015	Uncollectible Accounts Exp - Customer Accounting	670.7
1012	57010016	Uncollectible Accounts Exp - Admin & General	670.7
1012	57010100	Uncollectible Accounts Exp - Individual Value Adj	670.7
1012	57010199	Uncollectible Expense - Leak Adjustments	670.7
1012	58001000	Impairment - Goodwill	675.8

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Company	G/L Account	Account Description	NARUC
1012	58001500	Impairment - Intangibles	675.8
1012	58002000	Impairment - Plant Property & Equipment	675.8
1012	59011000	Gains/Losses Non-Utility Property Disposals	426.
1012	59011500	Gains/Losses Non-Utility Property Sales	426.
1012	59021000	Gains/Losses Utility Property Sales	426.
1012	59022000	Gains/Losses Acquisition of Asset	426.
1012	62002000	M&S Maint Expense	620.8
1012	62002100	M&S Maint - Source of Supply	620.2
1012	62002200	M&S Maint - Pumping	620.2
1012	62002300	M&S Maint - Water Treatment	620.4
1012	62002400	M&S Maint - Transmission & Distribution	620.6
1012	62002600	M&S Maint - Admin & General	620.8
1012	62502100	Misc Maint - Source of Supply	675.2
1012	62502110	Misc Maint - Source of Supply Struct & Imp	675.2
1012	62502115	Misc Maint - Source of Supply Coll & Imp	675.2
1012	62502120	Misc Maint - Source of Supply Lake	675.2
1012	62502125	Misc Maint - Source of Supply Wells	675.2
1012	62502130	Misc Maint - Source of Supply Infil Gallery	675.2
1012	62502135	Misc Maint - Source of Supply Supply Mains	675.2
1012	62502200	Misc Maint - Pumping	675.2
1012	62502210	Misc Maint - Pumping - Struct & Imp	675.2
1012	62502215	Misc Maint - Pumping - Power Production	675.2
1012	62502300	Misc Maint - Water Treatment	675.4
1012	62502310	Misc Maint - Water Treatment - Struct & Imp	675.4
1012	62502315	Misc Maint - Water Treatment - Equipment	675.4
1012	62502400	Misc Maint - Transmission & Distribution	675.6
1012	62502410	Misc Maint - Transmission & Distr - Struct & Imp	675.6
1012	62502415	Misc Maint - Transmission & Distrib - Dist Res	675.6
1012	62502420	Misc Maint - Transmission & Distribution - Mains	675.6
1012	62502425	Misc Maint - Transmission & Distrib - Fire Main	675.6
1012	62502430	Misc Maint - Transmission & Distribution - Service	675.6
1012	62502435	Misc Maint - Transmission & Distribution - Meters	675.6
1012	62502440	Misc Maint - Transmission & Distribution - Hydrant	675.6
1012	62502600	Misc Maint - Admin & General	675.8
1012	62510000	Amort Def Maint - Natural Account	675.6
1012	62512000	Amort Def Maint Expense	675.6
1012	62512100	Amort Def Maint - Source of Supply	675.2
1012	62512200	Amort Def Maint - Pumping	675.2
1012	62512300	Amort Def Maint - Water Treatment	675.4
1012	62512400	Amort Def Maint - Transmission & Distribution	675.6
1012	62520700	Misc Maint Paving/Backfill	675.6
1012	62520800	Misc Maint Permits - Natural Account	675.6
1012	62520821	Misc Maint Permits - Source of Supply	675.6
1012	62520824	Misc Maint Permits - Transmission & Distribution	675.6
1012	63110000	Contract Svc - Eng Maint	631.6
1012	63110021	Contract Svc-Eng Maint - Source of Supply	631.2

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1012	63110022	Contract Svc-Eng Maint - Pumping	631.2
1012	63110023	Contract Svc-Eng Maint - Water Treatment	631.4
1012	63110024	Contract Svc-Eng Maint - Transmission & Distr	631.6
1012	63110026	Contract Svc-Eng Maint - Admin & General	631.8
1012	63150021	Contract Svc-Other Maint - Source of Supply	636.2
1012	63150022	Contract Svc-Other Maint - Pumping	636.3
1012	63150023	Contract Svc-Other Maint - Water Treatment	636.4
1012	63150024	Contract Svc-Other Maint - Transmission & Distr	636.6
1012	63150026	Contract Svc-Other Maint - Admin & General	636.8
1012	68011000	Depreciation Exp - UPIS General	403.
1012	68011200	Depreciation Exp - Non-Utility Property	403.
1012	68011500	Depreciation Exp - Amort Def Depreciation	403.
1012	68012000	Depreciation Exp - Amort CIAC Tax	403.
1012	68012500	Depreciation Exp - Amort CIAC Nontax	403.
1012	68013000	Depreciation Exp - UPAA FAS141	403.
1012	68013500	Depreciation Exp - Neg UPAA	403.
1012	68251000	Amortization - Ltd Term Plant	407.1
1012	68252000	Amortization - Capital Leases	407.1
1012	68253000	Amortization - Post In-Service AFUDC	407.1
1012	68254000	Amortization - Reg Asset AFUDC	407.1
1012	68255000	Amortization - UPAA	406.
1012	68256000	Amortization - Intangible Finite Life	406.
1012	68257000	Amortization - Property Losses	407.2
1012	68258000	Amortization - Reg Asset	407.4
1012	68259000	Amortization - Other UP	407.3
1012	68311000	Removal Costs - ARO/Net Neg Salvage	403.
1012	68312000	Removal Costs - Net Negative Salvage CIAC Tax	403.
1012	68312500	Removal Costs - Net Negative Salvage CIAC Non-Tax	403.
1012	68520000	Property Taxes	408.11
1012	68520100	Tax Discounts	408.11
1012	68529000	Property Tax Non-Utility Property	408.20
1012	68532000	FUTA	408.12
1012	68532100	FUTA Cap Credits	408.12
1012	68533000	FICA	408.12
1012	68533100	FICA Cap Credits	408.12
1012	68535000	SUTA	408.12
1012	68535100	SUTA Cap Credits	408.12
1012	68541000	Capital Stock Tax	408.13
1012	68542000	Enviromental Tax	408.13
1012	68543000	Other Taxes and Licenses	408.13
1012	68544000	Gross Receipts Tax	408.13
1012	68545000	Utility Reg Assessment	408.10
1012	69011000	FIT - Current	409.10
1012	69011400	FIT - Current - Unitary Returns	409.10
1012	69012000	FIT - Prior Year Adjustment	409.10
1012	69012400	FIT - Prior Year - Unitary Returns	409.10

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1012	69012500	FIT - Acquisition Adjustment	409.10
1012	69021000	SIT - Current	409.11
1012	69021400	SIT - Current - Unitary Returns	409.11
1012	69022000	SIT - Prior Year Adjustment	409.11
1012	69022400	SIT - Prior Year - Unitary Returns	409.11
1012	69022500	SIT - Acquisition Adjustment	409.11
1012	69031000	FIT - Other Income & Deductions Current Year	409.20
1012	69031500	FIT - Reduction Acquisition Adjustment	409.20
1012	69041000	SIT - Other Income & Deductions Current Year	409.20
1012	69041500	SIT - Reduction Acquisition Adjustment	409.20
1012	69061000	Deferred FIT - Current Year	410.10
1012	69061400	Deferred FIT - Current Year - Unitary Returns	410.10
1012	69062000	Deferred FIT - Prior Year Adjustment	410.10
1012	69062400	Deferred FIT - Prior Year - Unitary Returns	410.10
1012	69063000	Deferred FIT - Reg Asset/Liability	410.10
1012	69063200	Deferred FIT - Reg Liability	410.10
1012	69065000	Deferred FIT - Other	410.10
1012	69071000	Deferred SIT - Current Year	410.11
1012	69071400	Deferred SIT - Current Year - Unitary Returns	410.11
1012	69072000	Deferred SIT - Prior Year Adjustment	410.11
1012	69072400	Deferred SIT - Prior Year - Unitary Returns	410.11
1012	69073000	Deferred SIT - Reg Asset/Liability	410.11
1012	69073200	Deferred SIT - Reg Liability	410.11
1012	69073500	Deferred SIT - Other	410.11
1012	69520000	Investment Tax Credit Restored - FIT	412.11
1012	69522000	Investment Tax Credits Restored - 3%	412.11
1012	69523000	Investment Tax Credits Restored - 4%	412.11
1012	69524000	Investment Tax Credits Restored - 10%	412.11
1012	69525000	Investment Tax Credits Restored - 6%	412.11
1012	69550000	Investment Tax Credits Restored SIT	412.11
1012	70510000	AFUDC - Equity	420.
1012	71010000	Dividend Income	419.
1012	71015000	Dividend Income C/S Interco	419.
1012	71030000	Dividend Income P/S Interco	419.
1012	71511000	M&J Revenues	415.
1012	71511500	M&J Revenues Intercompany	415.
1012	71511510	M&J Rev WLPP Billing Intercompany	415.
1012	71521000	M&J Expenses	416.
1012	71521500	M&J Expenses Intercompany	416.
1012	71611000	Misc Nonutility Revenue	421.
1012	71611100	Misc Nonutility Rev Rents	421.
1012	71611510	Misc Nonutility Revenue Intercompany	421.
1012	71611520	Misc Nonutility Rev Debt Exp Intercompany	421.
1012	71611530	Misc Nonutility Rev Credit Line Intercompany	421.
1012	71611540	Misc Nonutility Rev Rent Intercompany	421.
1012	71621000	Misc Nonutility Expense	426.

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1012	71630000	Misc Nonutility JV Profit/Loss	426.
1012	71711000	Gains/Losses SERP Inv (Suppl Exec Retiremnt Plan)	426.
1012	71712000	Gains/Losses Other Non-Operating	426.
1012	71713000	Gains/Losses Deferred Comp Trust	426.
1012	72801000	Adv Receipt Services Clearing	421.
1012	72801100	Adv Receipt Non-Services Clearing	421.
1012	72801200	Adv Refund Services Clearing	421.
1012	72801300	Adv Refund Non-Services Clearing	421.
1012	72802000	CIAC Receipt Services Clearing	421.
1012	72802100	CIAC Receipt Non-Services Clearing	421.
1012	72803000	Salvage/Scrap Receipt Clearing	421.
1012	72803100	Property Sale Receipt Clearing	421.
1012	75510000	Amortize UPAA	426.
1012	75520000	Amortize Preferred Stock Expense	426.
1012	75810000	Donations Deductible	426.
1012	75811000	Donations Deduct Customer Assist	426.
1012	75815000	Donations Non-deductible	426.
1012	75820000	Other Income Deductions	426.
1012	75840000	Lobbying Expenses	426.
1012	75841000	Political Contributiions	426.
1012	81010000	Interest Long Term Debt	427.3
1012	81015000	Interest Long Term Debt Intercompany	427.3
1012	81016000	Interest expense-LTD debt discount amort inside	427.3
1012	81017000	Early Debt Retirement Loss - External	427.3
1012	81017100	Early Debt Retirement Gain - Intercompany	427.3
1012	81017200	Early Debt Retirement Loss - Intercompany	427.3
1012	81020000	Dividends Declared P/S w/ Mand Redemptn Requiremts	437.
1012	81030000	Interest Capital Lease	427.3
1012	81035000	Interest Capital Lease Intercompany	427.3
1012	81050000	Interest LTD Gain/Loss Hedge SWAP	427.3
1012	81050100	Interest LTD Gain/Loss Hedge Debt	427.3
1012	81050300	Gain on Hedge	427.3
1012	81050305	Gain on Hedge Intercompany	427.3
1012	81050400	Loss on Hedge	427.3
1012	81050405	Loss on Hedge Intercompany	427.3
1012	81055200	Interest LTD Gain/Loss Hedge Intercompany	427.3
1012	81310000	Interest Short Term Debt	427.2
1012	81315000	Interest Short Term Debt Intercompany	427.2
1012	81315100	In-House Cash Center Interest Inc/Exp Clearing	427.2
1012	81500000	Interest Other	427.5
1012	81810000	Interest Income	419.
1012	81815000	Interest income-LTD intercompany	419.
1012	81815100	Interest Income - STD Intercompany	427.3
1012	81816000	Interest Income - LTD debt discount amort	427.3
1012	81817000	AWTR Interest Income - LTD debt premium amort	427.3
1012	82010000	Amortize Debt Disc & Exp	428.

Kentucky American Water Company
Chart of Accounts

Company	G/L Account	Account Description	NARUC
1012	82015000	Amortize Debt Disc & Exp Intercompany	428.
1012	82016000	Amortize Debt Exp Inside-Revolving Credit Line	428.
1012	82020000	Amort P/S Exp w/ Mandatory Redemptn Requiremts	428.
1012	85000000	AFUDC Debt	420.
1012	86021000	Dividend Declared Common Stock	438.
1012	86021500	Dividend Declared Common Stock Intercompany	438.
1012	86031000	Dividend Declared Preferred Stock	437.
1012	86031500	Dividend Declared Preferred Stock Intercompany	437.
1012	88101000	Capital Movements - UP	675.8
1012	88106000	Capital Movements - CCNC	675.8
1012	88107000	Capital Movements - CWIP	675.8
1012	88108020	Capital Movements - UP - A/D - Salvage	675.8
1012	88121000	Capital Movements - Non-Utility Property	675.8
1012	88121800	Capital Movements - Non-Utility Property - CWIP	675.8
1012	88186800	Capital Movements - Reg Asset Cost of Removal	675.8
1012	88186801	Capital Movements - Reg Asset Cost of Removal RWIP	675.8
1012	88252100	Capital Movements - ADV NT	675.8
1012	88252170	Capital Movements - ADV NT WIP	675.8
1012	88252200	Capital Movements - ADV Tax	675.8
1012	88252270	Capital Movements - ADV Tax WIP	675.8
1012	88257000	Capital Movements - Cost of Removal	675.8
1012	88257100	Capital Movements - RWIP	675.8
1012	88271100	Capital Movements - CIAC NT	675.8
1012	88271170	Capital Movements - CIAC NT WIP	675.8
1012	88271200	Capital Movements - CIAC Tax	675.8
1012	88271270	Capital Movements - CIAC Tax WIP	675.8
1012	88900000	Capital Movements - Settlement	675.8

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 30

Description of Filing Requirement:

The latest twelve (12) months of the monthly managerial reports providing financial results of operations in comparison to the forecast.

Response:

Please see attached documents which include the twelve monthly financial results of operations in comparison to forecast/budget reports for the twelve months ended December 2015.

For electronic version, refer to KAW_APP_EX30_012916.pdf.

Income Statement - Month To Date
E12_Kentucky American
Jan 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,848	6,756	92	1.37%	7,044	(196)	(2.78)%
Sewer revenues	2	39	44	(5)	(11.11)%	31	8	26.66%
Other operating revenues	3	189	146	43	29.78%	77	112	145.45%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,076	6,946	131	1.88%	7,152	(76)	(1.06)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	15	25	10	39.38%	45	30	65.74%
Fuel and Power	7	285	285	0	(0.02)%	316	30	9.56%
Chemicals	8	115	116	1	0.91%	140	26	18.36%
Waste disposal	9	24	27	3	11.87%	23	(1)	(3.94)%
Total production costs		439	453	14	3.13%	524	85	16.18%
Salaries & Wages	10	612	611	0	(0.07)%	752	140	18.61%
Pensions	11	59	30	(29)	(95.72)%	20	(39)	(190.38)%
Group insurances	12	151	134	(17)	(12.57)%	134	(17)	(13.07)%
Other benefits	13	40	34	(7)	(20.19)%	36	(5)	(13.68)%
Total employee related		862	809	(53)	(6.55)%	941	79	8.37%
Service Company costs	14	750	685	(65)	(9.49)%	754	4	0.53%
Contracted services	15	39	53	14	26.71%	59	20	33.74%
Building maintenance and services	16	55	48	(7)	(14.15)%	56	1	2.30%
Telecommunication expenses	17	18	23	5	22.35%	24	6	25.88%
Postage printing and stationery	18	1	2	0	24.95%	2	1	43.19%
Office supplies & expenses	19	16	17	1	7.42%	20	5	23.19%
Advertising & marketing expenses	20	-	1	1	100.00%	-		
Employee related expense travel & entertainment	21	14	6	(8)	(132.82)%	11	(3)	(28.04)%
Miscellaneous expenses	22	203	179	(24)	(13.25)%	64	(138)	(215.15)%
Rents	23	2	2	0	17.88%	3	1	22.06%
Transportation	24	33	34	1	2.00%	34	1	1.81%
Operating supplies & services		381	365	(15)	(4.22)%	274	(107)	(39.23)%
Uncollectible Accounts Exp	25	135	74	(60)	(81.26)%	167	32	19.16%
Customer accounting other	26	100	86	(14)	(16.29)%	91	(9)	(9.49)%
Regulatory expense	27	20	20	0	0.00%	30	10	33.80%
Insurance other than group	28	52	56	5	8.45%	50	(2)	(3.56)%
Maintenance service & supplies	29	164	120	(44)	(36.52)%	318	154	48.44%
Total operation and maintenance		2,902	2,669	(233)	(8.71)%	3,148	246	7.81%
Depreciation	30	994	1,007	14	1.35%	976	(18)	(1.82)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.67%	135	(16)	(12.02)%
Depreciation and Amortization		1,165	1,182	17	1.47%	1,130	(34)	(3.03)%
General taxes	33	540	486	(55)	(11.29)%	471	(69)	(14.70)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,607	4,337	(270)	(6.23)%	4,749	142	3.00%
Operating income (loss)		2,470	2,609	(139)	(5.34)%	2,403	67	2.77%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	7	2	(5)	(282.69)%	6	(1)	(24.43)%
Other Interest Expense	39	1	-	(1)		-	(1)	
Interest net		1,021	1,015	(6)	(0.59)%	1,008	(13)	(1.28)%
Allowance for other funds used during construction	40	33	17	16	93.79%	72	(39)	(53.60)%
Allowance for borrowed funds used during construction	41	15	8	7	88.44%	33	(18)	(53.59)%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.34%
Other Net	43	15	(6)	21	378.52%	(5)	21	391.60%
Total other income (expenses)		(964)	(1,003)	39	3.87%	(916)	(48)	(5.29)%
Income (loss) before income taxes		1,505	1,606	(100)	(6.25)%	1,487	18	1.22%
Provision for income taxes	44	605	661	55	8.38%	601	(4)	(0.71)%
Income (loss) from continuing operations		900	945	(45)	(4.77)%	886	14	1.57%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		900	945	(45)	(4.77)%	886	14	1.57%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		900	945	(45)	(4.77)%	886	14	1.57%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		900	945	(45)	(4.77)%	886	14	1.57%

Income Statement - Month To Date
E12_Kentucky American
Feb 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,467	6,453	14	0.22%	6,292	175	2.77%
Sewer revenues	2	34	35	(2)	(4.63)%	22	12	51.56%
Other operating revenues	3	164	147	17	11.74%	141	23	16.34%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		6,665	6,636	30	0.44%	6,456	209	3.24%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	17	25	9	34.56%	18	1	6.86%
Fuel and Power	7	320	280	(40)	(14.17)%	434	114	26.28%
Chemicals	8	101	98	(3)	(2.68)%	155	55	35.17%
Waste disposal	9	25	27	2	6.88%	12	(13)	(105.71)%
Total production costs		462	430	(32)	(7.36)%	619	157	25.37%
Salaries & Wages	10	528	560	32	5.71%	506	(23)	(4.47)%
Pensions	11	59	30	(29)	(94.57)%	19	(40)	(205.23)%
Group insurances	12	138	134	(4)	(3.09)%	114	(24)	(21.26)%
Other benefits	13	27	35	8	22.19%	27	0	(1.03)%
Total employee related		753	759	7	0.91%	666	(87)	(13.02)%
Service Company costs	14	670	646	(25)	(3.81)%	705	35	4.92%
Contracted services	15	49	58	9	15.78%	63	15	23.12%
Building maintenance and services	16	59	57	(2)	(3.77)%	65	6	9.42%
Telecommunication expenses	17	18	23	5	20.53%	20	2	9.37%
Postage printing and stationery	18	2	1	0	(26.91)%	1	(1)	(79.45)%
Office supplies & expenses	19	16	17	1	7.50%	17	2	9.78%
Advertising & marketing expenses	20	1	1	0	33.33%	-	(1)	
Employee related expense travel & entertainment	21	15	12	(3)	(29.66)%	0	(15)	(3,325.55)%
Miscellaneous expenses	22	88	94	6	6.29%	34	(54)	(161.27)%
Rents	23	4	2	(1)	(47.53)%	2	(2)	(93.29)%
Transportation	24	24	34	10	28.45%	39	15	37.72%
Operating supplies & services		275	299	24	7.96%	242	(33)	(13.56)%
Uncollectible Accounts Exp	25	71	72	1	2.00%	103	32	31.18%
Customer accounting other	26	83	81	(3)	(3.15)%	84	1	1.31%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	52	56	5	8.15%	50	(2)	(4.23)%
Maintenance service & supplies	29	87	138	51	36.74%	183	96	52.33%
Total operation and maintenance		2,473	2,501	28	1.14%	2,672	199	7.45%
Depreciation	30	994	1,007	12	1.20%	993	(1)	(0.13)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.44%	137	(14)	(9.92)%
Depreciation and Amortization		1,165	1,181	15	1.31%	1,150	(15)	(1.33)%
General taxes	33	574	475	(99)	(20.80)%	461	(113)	(24.51)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,212	4,157	(55)	(1.32)%	4,283	71	1.65%
Operating income (loss)		2,453	2,479	(25)	(1.02)%	2,173	280	12.88%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	969	(44)	(4.50)%
Interest on Short-Term Bank Debt	38	7	1	(6)	(474.22)%	5	(3)	(54.29)%
Other Interest Expense	39	-	-			-		
Interest net		1,020	1,014	(6)	(0.59)%	974	(46)	(4.73)%
Allowance for other funds used during construction	40	33	19	14	75.17%	16	17	105.84%
Allowance for borrowed funds used during construction	41	15	9	6	70.39%	8	7	96.16%
Amortization of debt expense	42	7	8	1	11.78%	8	0	5.06%
Other Net	43	32	(6)	37	672.44%	(3)	35	1,010.32%
Total other income (expenses)		(948)	(1,000)	52	5.23%	(962)	13	1.40%
Income (loss) before income taxes		1,505	1,478	27	1.82%	1,212	293	24.21%
Provision for income taxes	44	606	596	(10)	(1.66)%	490	(116)	(23.66)%
Income (loss) from continuing operations		899	882	17	1.93%	722	177	24.59%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		899	882	17	1.93%	722	177	24.59%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		899	882	17	1.93%	722	177	24.59%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		899	882	17	1.93%	722	177	24.59%

Income Statement - Month To Date
E12_Kentucky American
Mar 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,082	6,334	748	11.81%	6,831	251	3.68%
Sewer revenues	2	39	36	3	7.82%	23	16	69.86%
Other operating revenues	3	185	151	34	22.79%	143	42	29.66%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,306	6,521	785	12.05%	6,997	309	4.42%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	18	25	8	31.05%	19	1	7.44%
Fuel and Power	7	304	285	(19)	(6.85)%	241	(63)	(26.22)%
Chemicals	8	133	109	(24)	(21.71)%	106	(27)	(25.30)%
Waste disposal	9	25	27	2	6.33%	25	0	1.43%
Total production costs		479	446	(34)	(7.52)%	391	(88)	(22.54)%
Salaries & Wages	10	624	611	(12)	(2.01)%	468	(156)	(33.28)%
Pensions	11	42	30	(12)	(39.46)%	25	(17)	(67.38)%
Group insurances	12	146	134	(12)	(9.17)%	119	(28)	(23.56)%
Other benefits	13	45	31	(14)	(44.11)%	28	(17)	(62.00)%
Total employee related		857	807	(50)	(6.23)%	639	(218)	(34.07)%
Service Company costs	14	625	670	46	6.81%	646	22	3.37%
Contracted services	15	62	63	1	1.97%	86	24	28.26%
Building maintenance and services	16	67	52	(15)	(29.13)%	46	(21)	(46.40)%
Telecommunication expenses	17	19	23	5	20.10%	27	8	31.39%
Postage printing and stationery	18	1	2	0	26.34%	1	0	18.45%
Office supplies & expenses	19	25	19	(5)	(28.33)%	15	(10)	(67.79)%
Advertising & marketing expenses	20	0	1	1	95.10%	1	1	95.65%
Employee related expense travel & entertainment	21	13	12	(1)	(10.16)%	20	7	34.51%
Miscellaneous expenses	22	63	75	13	16.71%	80	17	21.61%
Rents	23	3	6	2	41.05%	5	1	30.33%
Transportation	24	46	66	20	29.80%	68	22	31.93%
Operating supplies & services		299	319	20	6.27%	349	50	14.37%
Uncollectible Accounts Exp	25	44	63	19	30.46%	196	152	77.47%
Customer accounting other	26	86	86	(1)	(0.82)%	78	(9)	(11.20)%
Regulatory expense	27	20	20	0	0.00%	19	(1)	(5.90)%
Insurance other than group	28	104	56	(48)	(84.41)%	78	(26)	(33.32)%
Maintenance service & supplies	29	128	160	31	19.57%	130	1	1.02%
Total operation and maintenance		2,643	2,627	(16)	(0.61)%	2,526	(117)	(4.63)%
Depreciation	30	999	1,006	7	0.73%	1,008	9	0.88%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	3	2.14%	140	(12)	(8.41)%
Depreciation and Amortization		1,170	1,181	10	0.87%	1,167	(3)	(0.28)%
General taxes	33	484	474	(10)	(2.02)%	428	(56)	(13.14)%
Loss (gain) on sale of assets	34	(33)	-	33		-	33	
Impairment charges	35	-	-			-		
Total operating expenses net		4,264	4,282	18	0.42%	4,120	(143)	(3.48)%
Operating income (loss)		3,042	2,239	803	35.87%	2,876	166	5.77%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,046	33	3.13%
Interest on Short-Term Bank Debt	38	10	2	(8)	(458.07)%	5	(5)	(115.93)%
Other Interest Expense	39	-	-			-		
Interest net		1,023	1,015	(8)	(0.81)%	1,050	27	2.60%
Allowance for other funds used during construction	40	42	20	22	109.06%	28	13	46.43%
Allowance for borrowed funds used during construction	41	19	9	10	102.29%	13	6	45.78%
Amortization of debt expense	42	8	8	0	2.39%	8	0	(5.06)%
Other Net	43	77	(7)	84	1,194.05%	(6)	83	1,297.89%
Total other income (expenses)		(893)	(1,001)	107	10.72%	(1,023)	129	12.66%
Income (loss) before income taxes		2,149	1,238	910	73.52%	1,853	295	15.94%
Provision for income taxes	44	890	512	(378)	(73.85)%	735	(156)	(21.18)%
Income (loss) from continuing operations		1,258	726	532	73.28%	1,119	140	12.50%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,258	726	532	73.28%	1,119	140	12.50%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,258	726	532	73.28%	1,119	140	12.50%
Common dividends	47	2,680	2,665	(15)	(0.57)%	2,727	47	1.72%
Current Year Retained Earnings		(1,422)	(1,939)	517	26.66%	(1,609)	187	11.61%

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Apr 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,669	6,627	41	0.62%	6,760	(91)	(1.35)%
Sewer revenues	2	39	40	(2)	(4.15)%	27	11	42.19%
Other operating revenues	3	166	153	14	9.06%	172	(5)	(3.18)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		6,874	6,820	54	0.79%	6,959	(85)	(1.22)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	29	25	(3)	(12.90)%	14	(15)	(110.57)%
Fuel and Power	7	250	289	39	13.48%	251	1	0.33%
Chemicals	8	104	122	19	15.22%	104	1	0.86%
Waste disposal	9	21	27	6	22.38%	23	3	10.95%
Total production costs		403	463	60	13.00%	392	(11)	(2.76)%
Salaries & Wages	10	595	623	28	4.54%	573	(22)	(3.79)%
Pensions	11	49	30	(18)	(61.09)%	20	(29)	(148.52)%
Group insurances	12	136	134	(2)	(1.16)%	123	(13)	(10.49)%
Other benefits	13	30	29	(1)	(2.01)%	31	1	4.25%
Total employee related		809	817	8	0.94%	747	(62)	(8.35)%
Service Company costs	14	685	677	(8)	(1.19)%	753	68	9.04%
Contracted services	15	16	66	50	75.51%	41	24	59.95%
Building maintenance and services	16	88	48	(41)	(85.68)%	50	(38)	(75.83)%
Telecommunication expenses	17	15	23	8	33.17%	26	11	42.33%
Postage printing and stationery	18	1	1	0	8.22%	2	0	21.60%
Office supplies & expenses	19	22	18	(5)	(26.97)%	12	(10)	(84.43)%
Advertising & marketing expenses	20	0	1	1	102.70%	1	1	103.44%
Employee related expense travel & entertainment	21	19	19	1	3.77%	14	(5)	(38.36)%
Miscellaneous expenses	22	110	98	(12)	(12.16)%	77	(32)	(41.59)%
Rents	23	0	3	3	97.17%	3	3	97.28%
Transportation	24	40	34	(5)	(15.98)%	34	(5)	(15.72)%
Operating supplies & services		311	311	(1)	(0.22)%	260	(52)	(19.87)%
Uncollectible Accounts Exp	25	108	63	(44)	(70.37)%	158	50	31.69%
Customer accounting other	26	95	81	(14)	(17.77)%	88	(7)	(7.94)%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	51	56	6	9.80%	50	(1)	(1.62)%
Maintenance service & supplies	29	140	152	13	8.47%	101	(39)	(38.70)%
Total operation and maintenance		2,622	2,641	19	0.71%	2,568	(53)	(2.08)%
Depreciation	30	1,000	1,006	6	0.64%	987	(13)	(1.35)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	152	155	3	2.00%	152	0	0.30%
Depreciation and Amortization		1,171	1,181	9	0.78%	1,158	(13)	(1.14)%
General taxes	33	491	474	(17)	(3.51)%	444	(47)	(10.47)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,284	4,296	11	0.27%	4,171	(113)	(2.71)%
Operating income (loss)		2,590	2,525	65	2.58%	2,788	(198)	(7.11)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	949	(64)	(6.69)%
Interest on Short-Term Bank Debt	38	11	2	(9)	(397.22)%	4	(6)	(144.70)%
Other Interest Expense	39	-	-			-		
Interest net		1,024	1,015	(9)	(0.86)%	954	(70)	(7.34)%
Allowance for other funds used during construction	40	43	25	18	70.76%	8	35	446.69%
Allowance for borrowed funds used during construction	41	20	12	8	65.98%	4	16	451.08%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.00%
Other Net	43	0	(10)	10	101.80%	(5)	5	103.49%
Total other income (expenses)		(968)	(995)	27	2.76%	(955)	(13)	(1.38)%
Income (loss) before income taxes		1,622	1,529	92	6.05%	1,833	(211)	(11.53)%
Provision for income taxes	44	646	628	(17)	(2.77)%	733	88	11.95%
Income (loss) from continuing operations		976	901	75	8.33%	1,100	(124)	(11.25)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		976	901	75	8.33%	1,100	(124)	(11.25)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		976	901	75	8.33%	1,100	(124)	(11.25)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		976	901	75	8.33%	1,100	(124)	(11.25)%

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
May 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,133	6,773	360	5.31%	6,903	230	3.33%
Sewer revenues	2	33	38	(5)	(12.58)%	25	8	34.14%
Other operating revenues	3	171	175	(4)	(2.20)%	178	(7)	(4.16)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,337	6,986	351	5.02%	7,106	231	3.25%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	16	25	10	38.75%	8	(7)	(91.60)%
Fuel and Power	7	396	337	(58)	(17.24)%	364	(32)	(8.79)%
Chemicals	8	110	129	18	14.25%	146	35	24.32%
Waste disposal	9	21	27	6	23.00%	24	3	13.04%
Total production costs		542	518	(24)	(4.60)%	541	(1)	(0.17)%
Salaries & Wages	10	574	597	22	3.76%	604	30	4.95%
Pensions	11	49	30	(19)	(61.72)%	20	(29)	(147.81)%
Group insurances	12	131	134	3	2.10%	119	(13)	(10.55)%
Other benefits	13	35	32	(2)	(6.96)%	32	(2)	(6.95)%
Total employee related		789	794	4	0.54%	775	(14)	(1.81)%
Service Company costs	14	654	650	(4)	(0.67)%	759	105	13.89%
Contracted services	15	36	71	35	48.84%	83	46	56.14%
Building maintenance and services	16	31	55	24	43.70%	49	18	37.36%
Telecommunication expenses	17	18	23	5	21.00%	21	3	13.90%
Postage printing and stationery	18	1	1	0	13.48%	1	0	(65.81)%
Office supplies & expenses	19	17	17	1	4.24%	13	(3)	(23.12)%
Advertising & marketing expenses	20	1	1	0	(50.67)%	(1)	(2)	(254.16)%
Employee related expense travel & entertainment	21	15	18	2	13.73%	11	(5)	(44.91)%
Miscellaneous expenses	22	416	149	(267)	(179.65)%	132	(285)	(216.51)%
Rents	23	1	2	2	62.36%	1	0	(9.52)%
Transportation	24	21	34	13	37.31%	41	20	48.22%
Operating supplies & services		558	371	(187)	(50.37)%	351	(208)	(59.20)%
Uncollectible Accounts Exp	25	135	56	(79)	(142.37)%	177	41	23.41%
Customer accounting other	26	80	86	6	6.97%	84	4	5.07%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	51	56	5	9.50%	50	(1)	(1.59)%
Maintenance service & supplies	29	216	152	(65)	(42.52)%	174	(43)	(24.63)%
Total operation and maintenance		3,046	2,702	(343)	(12.71)%	2,931	(115)	(3.92)%
Depreciation	30	999	1,007	7	0.74%	996	(4)	(0.38)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	152	155	3	1.98%	152	1	0.50%
Depreciation and Amortization		1,171	1,181	10	0.86%	1,168	(3)	(0.29)%
General taxes	33	993	473	(521)	(110.14)%	447	(546)	(122.21)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		5,210	4,356	(854)	(19.60)%	4,546	(665)	(14.62)%
Operating income (loss)		2,127	2,630	(503)	(19.12)%	2,561	(434)	(16.94)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,076	64	5.90%
Interest on Short-Term Bank Debt	38	9	3	(6)	(190.19)%	4	(5)	(120.15)%
Other Interest Expense	39	271	-	(271)		-	(271)	
Interest net		1,293	1,016	(277)	(27.25)%	1,080	(212)	(19.65)%
Allowance for other funds used during construction	40	48	36	12	33.05%	20	28	135.76%
Allowance for borrowed funds used during construction	41	22	17	5	29.29%	9	13	133.83%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.00%
Other Net	43	(2)	(6)	3	61.84%	8	(10)	(126.83)%
Total other income (expenses)		(1,233)	(977)	(256)	(26.21)%	(1,051)	(182)	(17.35)%
Income (loss) before income taxes		894	1,653	(759)	(45.92)%	1,510	(616)	(40.80)%
Provision for income taxes	44	356	666	310	46.53%	603	247	41.02%
Income (loss) from continuing operations		538	987	(449)	(45.50)%	907	(369)	(40.65)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		538	987	(449)	(45.50)%	907	(369)	(40.65)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		538	987	(449)	(45.50)%	907	(369)	(40.65)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		538	987	(449)	(45.50)%	907	(369)	(40.65)%

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Jun 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,022	7,573	449	5.93%	7,867	155	1.97%
Sewer revenues	2	35	34	1	4.03%	20	15	70.90%
Other operating revenues	3	210	189	21	11.26%	200	10	5.00%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,267	7,795	472	6.06%	8,088	179	2.22%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	17	25	8	31.46%	14	(4)	(25.09)%
Fuel and Power	7	370	384	14	3.61%	340	(30)	(8.77)%
Chemicals	8	156	143	(13)	(8.90)%	134	(22)	(16.72)%
Waste disposal	9	24	27	3	10.62%	23	(1)	(3.37)%
Total production costs		567	579	12	2.07%	511	(56)	(11.05)%
Salaries & Wages	10	584	623	39	6.23%	575	(9)	(1.57)%
Pensions	11	46	30	(16)	(52.74)%	19	(27)	(137.79)%
Group insurances	12	127	134	7	5.06%	117	(11)	(9.28)%
Other benefits	13	34	29	(5)	(16.66)%	27	(7)	(24.19)%
Total employee related		792	816	25	3.03%	738	(53)	(7.21)%
Service Company costs	14	716	661	(55)	(8.27)%	693	(23)	(3.37)%
Contracted services	15	155	64	(91)	(141.81)%	98	(57)	(58.65)%
Building maintenance and services	16	56	46	(10)	(20.93)%	49	(7)	(13.62)%
Telecommunication expenses	17	23	23	0	(0.21)%	21	(2)	(8.02)%
Postage printing and stationery	18	1	2	0	26.80%	1	0	10.58%
Office supplies & expenses	19	18	20	2	8.61%	17	(1)	(5.75)%
Advertising & marketing expenses	20	0	1	1	101.70%	0	0	163.00%
Employee related expense travel & entertainment	21	20	14	(6)	(44.20)%	7	(13)	(183.88)%
Miscellaneous expenses	22	124	105	(19)	(17.74)%	40	(84)	(207.11)%
Rents	23	1	2	1	55.11%	3	1	55.88%
Transportation	24	69	34	(35)	(102.19)%	41	(28)	(69.64)%
Operating supplies & services		468	312	(156)	(49.91)%	278	(190)	(68.40)%
Uncollectible Accounts Exp	25	65	63	(2)	(3.35)%	132	67	50.61%
Customer accounting other	26	89	81	(8)	(9.92)%	93	5	5.06%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	105	56	(48)	(85.79)%	124	20	15.70%
Maintenance service & supplies	29	204	142	(62)	(43.61)%	196	(8)	(3.95)%
Total operation and maintenance		3,026	2,731	(294)	(10.77)%	2,786	(240)	(8.61)%
Depreciation	30	923	1,008	85	8.42%	997	74	7.41%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	155	155	0	(0.26)%	153	(2)	(1.45)%
Depreciation and Amortization		1,098	1,182	84	7.11%	1,169	71	6.09%
General taxes	33	485	477	(8)	(1.77)%	441	(44)	(10.10)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,609	4,390	(219)	(4.98)%	4,396	(213)	(4.85)%
Operating income (loss)		3,658	3,405	253	7.44%	3,692	(34)	(0.91)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	8	5	(3)	(56.45)%	4	(4)	(84.09)%
Other Interest Expense	39	-	-			-		
Interest net		1,021	1,018	(3)	(0.29)%	1,017	(4)	(0.36)%
Allowance for other funds used during construction	40	52	49	3	7.12%	23	29	121.69%
Allowance for borrowed funds used during construction	41	24	23	1	4.11%	11	13	121.69%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.00%
Other Net	43	4	(6)	10	176.06%	(2)	6	349.62%
Total other income (expenses)		(948)	(960)	12	1.23%	(992)	44	4.41%
Income (loss) before income taxes		2,710	2,445	265	10.85%	2,700	10	0.37%
Provision for income taxes	44	1,152	978	(174)	(17.75)%	1,072	(79)	(7.40)%
Income (loss) from continuing operations		1,558	1,466	92	6.25%	1,627	(69)	(4.25)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,558	1,466	92	6.25%	1,627	(69)	(4.25)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,558	1,466	92	6.25%	1,627	(69)	(4.25)%
Common dividends	47	2,273	1,927	(346)	(17.96)%	2,038	(235)	(11.54)%
Current Year Retained Earnings		(715)	(460)	(254)	(55.24)%	(410)	(304)	(74.19)%

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Jul 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,902	8,266	(364)	(4.40)%	8,394	(492)	(5.86)%
Sewer revenues	2	38	34	4	10.26%	28	9	32.56%
Other operating revenues	3	213	194	18	9.42%	209	4	1.94%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,152	8,495	(342)	(4.03)%	8,631	(478)	(5.54)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	26	25	(1)	(2.26)%	(48)	(74)	(154.29)%
Fuel and Power	7	324	380	55	14.57%	391	67	17.08%
Chemicals	8	221	174	(47)	(27.14)%	136	(85)	(62.12)%
Waste disposal	9	22	27	5	19.14%	22	1	2.29%
Total production costs		593	606	13	2.09%	502	(91)	(18.23)%
Salaries & Wages	10	636	649	13	2.05%	608	(28)	(4.58)%
Pensions	11	50	30	(20)	(65.83)%	20	(30)	(153.66)%
Group insurances	12	146	134	(12)	(9.07)%	125	(21)	(16.92)%
Other benefits	13	32	31	(1)	(2.88)%	32	0	(1.45)%
Total employee related		864	844	(20)	(2.33)%	784	(80)	(10.19)%
Service Company costs	14	702	675	(28)	(4.08)%	758	56	7.34%
Contracted services	15	69	68	(1)	(1.50)%	94	25	27.04%
Building maintenance and services	16	60	47	(13)	(27.23)%	79	19	24.58%
Telecommunication expenses	17	21	23	2	6.68%	26	4	16.03%
Postage printing and stationery	18	3	1	(2)	(144.12)%	2	(1)	(41.71)%
Office supplies & expenses	19	19	17	(2)	(9.32)%	23	4	17.33%
Advertising & marketing expenses	20	6	1	(5)	(465.30)%	2	(4)	(184.36)%
Employee related expense travel & entertainment	21	15	22	7	30.47%	17	2	9.50%
Miscellaneous expenses	22	64	80	15	19.26%	134	70	51.98%
Rents	23	0	3	3	100.00%	0	0	99.94%
Transportation	24	32	35	3	7.23%	42	10	23.44%
Operating supplies & services		290	296	7	2.21%	419	130	30.94%
Uncollectible Accounts Exp	25	60	63	3	5.26%	18	(42)	(229.75)%
Customer accounting other	26	97	86	(12)	(13.70)%	80	(17)	(21.51)%
Regulatory expense	27	70	20	(50)	(251.02)%	20	(50)	(251.02)%
Insurance other than group	28	52	56	5	8.18%	50	(2)	(4.38)%
Maintenance service & supplies	29	135	150	15	9.98%	188	53	28.14%
Total operation and maintenance		2,864	2,797	(67)	(2.40)%	2,819	(45)	(1.58)%
Depreciation	30	1,003	1,009	6	0.61%	998	(5)	(0.54)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.74%	153	2	1.22%
Depreciation and Amortization		1,174	1,184	10	0.85%	1,170	(4)	(0.33)%
General taxes	33	490	478	(11)	(2.39)%	413	(77)	(18.52)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,527	4,459	(69)	(1.54)%	4,402	(125)	(2.84)%
Operating income (loss)		3,625	4,036	(411)	(10.17)%	4,228	(603)	(14.27)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	7	5	(2)	(36.66)%	4	(3)	(82.02)%
Other Interest Expense	39	-	-			-		
Interest net		1,020	1,018	(2)	(0.19)%	1,017	(3)	(0.32)%
Allowance for other funds used during construction	40	66	62	4	6.93%	12	54	455.44%
Allowance for borrowed funds used during construction	41	30	29	1	3.93%	5	25	455.44%
Amortization of debt expense	42	9	8	0	(6.06)%	7	(1)	(15.33)%
Other Net	43	(2)	(6)	4	72.59%	6	(8)	(124.31)%
Total other income (expenses)		(933)	(940)	7	0.75%	(1,001)	67	6.71%
Income (loss) before income taxes		2,692	3,095	(404)	(13.04)%	3,228	(536)	(16.61)%
Provision for income taxes	44	1,085	1,237	152	12.28%	1,289	204	15.86%
Income (loss) from continuing operations		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%

Income Statement - Month To Date
E12_Kentucky American
Aug 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,137	8,211	(74)	(0.90)%	7,849	288	3.67%
Sewer revenues	2	39	39	(1)	(1.37)%	21	17	80.87%
Other operating revenues	3	221	204	17	8.08%	239	(18)	(7.49)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,396	8,454	(58)	(0.69)%	8,109	287	3.54%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	22	16	(5)	(31.38)%	15	(7)	(48.66)%
Fuel and Power	7	399	383	(16)	(4.18)%	342	(57)	(16.82)%
Chemicals	8	170	171	1	0.75%	189	20	10.36%
Waste disposal	9	15	27	12	45.44%	23	8	36.08%
Total production costs		605	597	(8)	(1.30)%	568	(37)	(6.46)%
Salaries & Wages	10	596	597	1	0.15%	538	(58)	(10.77)%
Pensions	11	50	30	(20)	(66.47)%	20	(30)	(150.51)%
Group insurances	12	137	134	(3)	(2.16)%	109	(28)	(25.20)%
Other benefits	13	30	32	2	6.76%	28	(2)	(6.83)%
Total employee related		814	794	(20)	(2.51)%	696	(118)	(16.92)%
Service Company costs	14	763	639	(124)	(19.44)%	685	(78)	(11.34)%
Contracted services	15	78	65	(13)	(20.45)%	43	(35)	(80.46)%
Building maintenance and services	16	34	48	14	28.98%	55	21	37.34%
Telecommunication expenses	17	19	23	4	17.03%	27	8	29.34%
Postage printing and stationery	18	5	5	1	11.64%	1	(3)	(240.72)%
Office supplies & expenses	19	18	17	(1)	(5.41)%	9	(9)	(99.41)%
Advertising & marketing expenses	20	7	1	(7)	(874.67)%	0	(8)	(2,365.96)%
Employee related expense travel & entertainment	21	12	14	1	9.68%	31	19	61.04%
Miscellaneous expenses	22	110	82	(28)	(33.91)%	82	(29)	(35.35)%
Rents	23	0	3	2	82.61%	(1)	(2)	(136.65)%
Transportation	24	41	34	(7)	(21.22)%	43	2	3.50%
Operating supplies & services		326	293	(34)	(11.59)%	290	(36)	(12.46)%
Uncollectible Accounts Exp	25	81	71	(10)	(14.62)%	53	(28)	(51.54)%
Customer accounting other	26	93	81	(12)	(15.28)%	94	1	1.37%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	51	56	6	9.90%	50	(1)	(2.13)%
Maintenance service & supplies	29	150	147	(3)	(2.13)%	219	69	31.49%
Total operation and maintenance		2,903	2,697	(206)	(7.64)%	2,676	(227)	(8.46)%
Depreciation	30	1,009	1,010	1	0.14%	1,002	(7)	(0.69)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.35%	153	2	1.04%
Depreciation and Amortization		1,180	1,185	5	0.39%	1,174	(6)	(0.48)%
General taxes	33	519	474	(45)	(9.58)%	442	(78)	(17.56)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,602	4,356	(247)	(5.66)%	4,293	(310)	(7.22)%
Operating income (loss)		3,794	4,098	(305)	(7.43)%	3,816	(23)	(0.59)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	8	6	(3)	(48.86)%	4	(5)	(128.40)%
Other Interest Expense	39	-	-			-		
Interest net		1,021	1,018	(3)	(0.27)%	1,016	(5)	(0.46)%
Allowance for other funds used during construction	40	66	76	(10)	(12.87)%	16	50	319.38%
Allowance for borrowed funds used during construction	41	29	36	(6)	(17.82)%	7	22	306.82%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(12.98)%
Other Net	43	3	(6)	9	159.04%	(25)	28	112.97%
Total other income (expenses)		(931)	(920)	(11)	(1.15)%	(1,026)	95	9.30%
Income (loss) before income taxes		2,863	3,178	(315)	(9.92)%	2,790	73	2.61%
Provision for income taxes	44	1,154	1,255	101	8.05%	1,114	(39)	(3.54)%
Income (loss) from continuing operations		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Sep 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,621	8,283	339	4.09%	7,579	1,042	13.75%
Sewer revenues	2	43	41	3	6.73%	35	9	24.52%
Other operating revenues	3	216	168	48	28.31%	185	30	16.34%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,880	8,492	389	4.58%	7,799	1,081	13.86%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	33	16	(16)	(98.43)%	33	0	1.27%
Fuel and Power	7	436	362	(74)	(20.54)%	301	(135)	(44.91)%
Chemicals	8	135	134	(1)	(1.05)%	167	32	19.06%
Waste disposal	9	12	27	14	54.00%	23	10	46.07%
Total production costs		616	539	(77)	(14.38)%	524	(92)	(17.64)%
Salaries & Wages	10	650	623	(27)	(4.33)%	572	(78)	(13.64)%
Pensions	11	51	30	(21)	(70.24)%	20	(32)	(159.62)%
Group insurances	12	144	134	(10)	(7.31)%	121	(23)	(18.79)%
Other benefits	13	32	33	0	1.29%	27	(5)	(19.81)%
Total employee related		878	820	(58)	(7.02)%	740	(138)	(18.62)%
Service Company costs	14	643	647	4	0.61%	777	133	17.18%
Contracted services	15	333	55	(278)	(503.73)%	81	(252)	(312.49)%
Building maintenance and services	16	54	47	(7)	(16.07)%	65	10	16.23%
Telecommunication expenses	17	21	23	2	6.81%	21	(1)	(3.59)%
Postage printing and stationery	18	3	2	(2)	(102.06)%	1	(2)	(150.97)%
Office supplies & expenses	19	19	18	(1)	(3.99)%	9	(9)	(98.05)%
Advertising & marketing expenses	20	0	1	1	80.00%	2	2	88.66%
Employee related expense travel & entertainment	21	15	12	(3)	(24.85)%	26	11	42.92%
Miscellaneous expenses	22	62	85	23	27.49%	101	39	38.76%
Rents	23	1	2	2	69.18%	4	3	79.79%
Transportation	24	34	34	1	1.53%	38	5	12.20%
Operating supplies & services		541	279	(263)	(94.31)%	347	(195)	(56.09)%
Uncollectible Accounts Exp	25	136	63	(73)	(116.60)%	(176)	(312)	(177.02)%
Customer accounting other	26	89	86	(4)	(4.19)%	93	4	3.84%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	121	56	(64)	(114.19)%	34	(87)	(258.44)%
Maintenance service & supplies	29	111	139	28	19.94%	127	16	12.66%
Total operation and maintenance		3,156	2,648	(507)	(19.16)%	2,485	(671)	(27.01)%
Depreciation	30	690	1,011	321	31.77%	1,010	320	31.72%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	152	155	4	2.29%	153	2	1.06%
Depreciation and Amortization		861	1,185	324	27.36%	1,183	322	27.20%
General taxes	33	496	476	(21)	(4.41)%	774	277	35.85%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,513	4,309	(204)	(4.73)%	4,441	(72)	(1.62)%
Operating income (loss)		4,367	4,182	185	4.42%	3,358	1,009	30.05%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	6	7	1	19.68%	3	(3)	(115.64)%
Other Interest Expense	39	-	-			0	0	100.00%
Interest net		1,019	1,020	1	0.14%	1,016	(3)	(0.32)%
Allowance for other funds used during construction	40	77	90	(13)	(14.88)%	26	51	194.18%
Allowance for borrowed funds used during construction	41	35	42	(7)	(17.27)%	12	23	194.18%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(14.58)%
Other Net	43	(3)	(6)	2	42.62%	4	(7)	(176.35)%
Total other income (expenses)		(919)	(901)	(17)	(1.93)%	(981)	62	6.34%
Income (loss) before income taxes		3,449	3,281	167	5.10%	2,377	1,071	45.07%
Provision for income taxes	44	1,398	1,298	(100)	(7.68)%	173	(1,225)	(709.07)%
Income (loss) from continuing operations		2,051	1,983	68	3.42%	2,204	(154)	(6.97)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		2,051	1,983	68	3.42%	2,204	(154)	(6.97)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		2,051	1,983	68	3.42%	2,204	(154)	(6.97)%
Common dividends	47	2,304	2,500	196	7.84%	2,727	423	15.52%
Current Year Retained Earnings		(253)	(517)	264	51.01%	(523)	270	51.57%

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Oct 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,149	7,671	478	6.23%	7,613	536	7.04%
Sewer revenues	2	39	44	(5)	(11.02)%	42	(2)	(5.72)%
Other operating revenues	3	196	167	29	17.46%	175	21	11.71%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,384	7,882	502	6.37%	7,830	554	7.08%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	26	16	(10)	(59.53)%	24	(2)	(9.95)%
Fuel and Power	7	297	324	27	8.46%	317	20	6.42%
Chemicals	8	118	108	(10)	(9.65)%	174	56	32.22%
Waste disposal	9	12	27	14	53.64%	28	16	55.73%
Total production costs		453	475	22	4.54%	543	90	16.51%
Salaries & Wages	10	570	623	53	8.52%	579	9	1.62%
Pensions	11	45	30	(15)	(49.70)%	21	(24)	(116.60)%
Group insurances	12	128	134	6	4.72%	118	(10)	(8.11)%
Other benefits	13	39	32	(7)	(22.40)%	27	(12)	(45.65)%
Total employee related		782	819	37	4.55%	745	(37)	(4.94)%
Service Company costs	14	643	640	(3)	(0.47)%	682	39	5.69%
Contracted services	15	37	62	26	40.91%	88	51	58.21%
Building maintenance and services	16	1	50	49	97.97%	52	51	98.04%
Telecommunication expenses	17	18	23	5	23.02%	16	(2)	(11.64)%
Postage printing and stationery	18	7	2	(5)	(304.73)%	1	(5)	(409.61)%
Office supplies & expenses	19	21	19	(3)	(13.84)%	16	(5)	(32.46)%
Advertising & marketing expenses	20	0	1	1	73.60%	0	0	(32.00)%
Employee related expense travel & entertainment	21	24	14	(10)	(68.41)%	15	(9)	(61.26)%
Miscellaneous expenses	22	12	72	60	83.72%	130	118	90.97%
Rents	23	4	3	(2)	(78.82)%	8	4	44.86%
Transportation	24	32	34	2	6.04%	44	12	26.79%
Operating supplies & services		156	280	124	44.19%	371	215	57.84%
Uncollectible Accounts Exp	25	94	64	(30)	(47.34)%	49	(45)	(91.77)%
Customer accounting other	26	93	81	(13)	(16.01)%	92	(1)	(1.06)%
Regulatory expense	27	19	19	0	0.00%	20	1	3.08%
Insurance other than group	28	50	56	6	11.08%	49	(1)	(1.46)%
Maintenance service & supplies	29	169	134	(35)	(25.86)%	147	(22)	(14.75)%
Total operation and maintenance		2,461	2,569	108	4.21%	2,699	238	8.83%
Depreciation	30	1,015	1,011	(3)	(0.34)%	1,012	(3)	(0.27)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.58%	153	2	1.49%
Depreciation and Amortization		1,186	1,186	0	0.02%	1,185	(1)	(0.06)%
General taxes	33	492	474	(18)	(3.79)%	480	(12)	(2.48)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,138	4,228	90	2.14%	4,364	226	5.17%
Operating income (loss)		4,246	3,654	592	16.20%	3,466	780	22.50%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	7	8	0	5.98%	3	(4)	(132.52)%
Other Interest Expense	39	0	-	0		-	0	
Interest net		1,020	1,020	0	0.04%	1,016	(4)	(0.41)%
Allowance for other funds used during construction	40	92	102	(10)	(9.96)%	30	62	204.94%
Allowance for borrowed funds used during construction	41	42	48	(6)	(12.49)%	14	28	204.94%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(13.71)%
Other Net	43	(8)	(6)	(3)	(48.74)%	(4)	(4)	(110.02)%
Total other income (expenses)		(903)	(883)	(19)	(2.15)%	(983)	81	8.22%
Income (loss) before income taxes		3,343	2,770	573	20.69%	2,483	861	34.67%
Provision for income taxes	44	1,349	1,096	(253)	(23.04)%	990	(358)	(36.19)%
Income (loss) from continuing operations		1,995	1,674	320	19.14%	1,492	502	33.66%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,995	1,674	320	19.14%	1,492	502	33.66%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,995	1,674	320	19.14%	1,492	502	33.66%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,995	1,674	320	19.14%	1,492	502	33.66%

Income Statement - Month To Date
E12_Kentucky American
Nov 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,883	6,893	(10)	(0.15)%	6,691	191	2.86%
Sewer revenues	2	39	44	(5)	(11.62)%	36	3	8.31%
Other operating revenues	3	175	150	25	16.73%	161	14	8.54%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,096	7,087	10	0.14%	6,888	208	3.02%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	20	16	(4)	(24.01)%	7	(13)	(187.21)%
Fuel and Power	7	315	284	(30)	(10.61)%	252	(62)	(24.62)%
Chemicals	8	119	119	0	(0.20)%	97	(22)	(22.64)%
Waste disposal	9	22	27	5	17.58%	24	2	10.16%
Total production costs		476	446	(30)	(6.65)%	381	(95)	(24.91)%
Salaries & Wages	10	678	604	(74)	(12.21)%	512	(166)	(32.40)%
Pensions	11	50	30	(19)	(63.76)%	21	(29)	(138.59)%
Group insurances	12	142	134	(7)	(5.50)%	109	(32)	(29.35)%
Other benefits	13	32	34	2	4.85%	11	(21)	(181.63)%
Total employee related		901	802	(99)	(12.31)%	653	(248)	(37.87)%
Service Company costs	14	683	623	(60)	(9.60)%	715	32	4.42%
Contracted services	15	90	54	(36)	(67.14)%	12	(78)	(647.15)%
Building maintenance and services	16	48	45	(3)	(7.24)%	20	(28)	(140.06)%
Telecommunication expenses	17	20	23	3	14.73%	18	(2)	(11.29)%
Postage printing and stationery	18	2	1	(1)	(47.22)%	2	0	1.79%
Office supplies & expenses	19	25	18	(7)	(39.84)%	(6)	(30)	(544.94)%
Advertising & marketing expenses	20	0	1	1	106.93%	-	0	
Employee related expense travel & entertainment	21	163	9	(154)	(1,701.42)%	16	(148)	(946.57)%
Miscellaneous expenses	22	68	78	10	12.45%	46	(23)	(49.32)%
Rents	23	0	2	2	86.50%	4	3	90.52%
Transportation	24	39	34	(5)	(13.34)%	70	31	44.58%
Operating supplies & services		455	265	(190)	(71.68)%	181	(274)	(151.69)%
Uncollectible Accounts Exp	25	8	50	42	84.68%	120	112	93.64%
Customer accounting other	26	96	86	(11)	(12.51)%	92	(5)	(4.93)%
Regulatory expense	27	19	19	0	0.00%	20	1	3.08%
Insurance other than group	28	51	56	5	9.34%	49	(2)	(3.61)%
Maintenance service & supplies	29	126	157	32	20.07%	92	(34)	(37.14)%
Total operation and maintenance		2,815	2,505	(310)	(12.37)%	2,302	(512)	(22.25)%
Depreciation	30	1,015	1,029	14	1.36%	969	(46)	(4.79)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.42%	149	(2)	(1.42)%
Depreciation and Amortization		1,186	1,204	17	1.44%	1,138	(49)	(4.29)%
General taxes	33	490	471	(19)	(4.08)%	478	(12)	(2.42)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,491	4,179	(312)	(7.46)%	3,918	(573)	(14.61)%
Operating income (loss)		2,605	2,907	(302)	(10.38)%	2,970	(364)	(12.27)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	7	7	0	2.50%	3	(3)	(100.59)%
Other Interest Expense	39	-	-			-		
Interest net		1,019	1,020	0	0.02%	1,016	(3)	(0.32)%
Allowance for other funds used during construction	40	100	111	(11)	(10.33)%	34	66	192.67%
Allowance for borrowed funds used during construction	41	46	52	(7)	(12.84)%	16	30	192.77%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(14.14)%
Other Net	43	(3)	(6)	3	47.39%	(19)	16	84.88%
Total other income (expenses)		(886)	(870)	(16)	(1.83)%	(993)	108	10.82%
Income (loss) before income taxes		1,720	2,037	(318)	(15.60)%	1,977	(257)	(13.00)%
Provision for income taxes	44	630	804	174	21.63%	783	152	19.47%
Income (loss) from continuing operations		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%

AMERICAN WATER

Kentucky
Dec 2015 MTD Income Statement

$ in '000s		MTD Actuals	MTD Budget	Fav/(Unfav)	% Variance	MTD Prior Yr	Fav/(Unfav)	% Variance
OPERATING REVENUES								
Water revenues	1	6,619	6,517	102	1.6%	6,546	74	1.1%
Sewer revenues	2	38	42	(4)	(9.6%)	35	2	7.0%
Other operating revenues	3	175	147	28	19.1%	185	(10)	(5.4%)
Operating revenues		**6,832**	**6,706**	**126**	**1.9%**	**6,766**	**66**	**1.0%**
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	4	13	16	4	23.2%	29	17	56.7%
Fuel and Power	5	322	289	(33)	(11.5%)	265	(56)	(21.2%)
Chemicals	6	130	113	(18)	(15.6%)	107	(23)	(21.6%)
Waste disposal	7	22	27	4	15.8%	28	6	20.3%
Total production costs		**487**	**444**	**(43)**	**(9.6%)**	**430**	**(57)**	**(13.3%)**
Salaries & Wages	8	637	654	17	2.6%	645	8	1.2%
Pensions	9	49	30	(19)	(61.7%)	21	(28)	(130.6%)
Group insurances	10	142	134	(7)	(5.5%)	123	(19)	(15.4%)
Other benefits	11	47	60	13	22.1%	62	16	25.2%
Total employee related		**874**	**878**	**4**	**0.5%**	**851**	**(23)**	**(2.7%)**
Service Company costs	12	**792**	649	**(143)**	(22.1%)	**849**	**57**	**6.7%**
Contracted services	13	156	56	(100)	(178.2%)	15	(141)	(942.1%)
Building maintenance and services	14	63	50	(14)	(27.2%)	59	(4)	(7.5%)
Telecommunication expenses	15	22	23	1	6.0%	21	(1)	(3.5%)
Office supplies & expenses	16	30	18	(12)	(68.7%)	16	(14)	(85.3%)
Employee related expense travel & entertainment	17	13	7	(5)	(68.9%)	(30)	(43)	141.4%
Miscellaneous expenses	18	107	87	(20)	(23.5%)	(16)	(123)	771.8%
Rents	19	1	3	2	64.8%	2	1	49.6%
Transportation	20	40	35	(6)	(16.0%)	8	(32)	(418.9%)
Other	21	2	3	0	18.0%	3	1	24.2%
Operating supplies & services		**434**	**281**	**(153)**	**(54.4%)**	**77**	**(356)**	**(460.1%)**
Uncollectible Accounts Exp	22	(31)	55	86	155.8%	46	77	166.9%
Customer accounting other	23	99	86	(14)	(15.8%)	82	(17)	(20.6%)
Regulatory expense	24	19	19	0	0.0%	20	1	3.1%
Insurance other than group	25	199	56	(142)	(252.1%)	104	(95)	(90.7%)
Maintenance service & supplies	26	383	147	(236)	(159.8%)	123	(260)	(211.5%)
Total operation and maintenance		**3,256**	**2,616**	**(640)**	**(24.4%)**	**2,583**	**(673)**	**(26.1%)**
Depreciation	27	1,028	1,029	1	0.1%	970	(58)	(6.0%)
Amortization	28	20	20	(0)	(1.8%)	20	(0)	(1.8%)
Removal costs	29	187	155	(32)	(20.8%)	149	(38)	(25.2%)
Depreciation and Amortization		**1,235**	**1,203**	**(32)**	**(2.7%)**	**1,139**	**(96)**	**(8.4%)**
General taxes	30	519	473	(46)	(9.7%)	483	(36)	(7.5%)
Loss (gain) on sale of assets	31	0	0	0	0.0%	0	0	0.0%
Impairment charges	32	0	0	0	0.0%	0	0	0.0%
Total operating expenses net		**5,010**	**4,293**	**(717)**	**(16.7%)**	**4,205**	**(805)**	**(19.2%)**
Operating income (loss)		**1,822**	**2,413**	**(591)**	**(24.5%)**	**2,561**	**(739)**	**(28.9%)**
OTHER INCOME (EXPENSES)								
Interest Income	33	0	0	0	0.0%	0	0	0.0%
Interest on long-term debt	34	997	1,013	16	1.6%	1,013	16	1.6%
Interest on Short-Term Bank Debt	35	11	8	(3)	(32.5%)	6	(5)	(80.6%)
Other Interest Expense	36	0	0	0	0.0%	0	0	0.0%
Interest net		**1,008**	**1,021**	**13**	**1.3%**	**1,019**	**11**	**1.1%**
Allowance for other funds used during construction	37	118	103	15	14.3%	31	87	280.2%
Allowance for borrowed funds used during construction	38	54	49	5	11.1%	14	40	280.2%
Amortization of debt expense	39	17	8	(9)	(104.9%)	8	(9)	(120.5%)
Other Net	40	60	(6)	65	(1177.7%)	(21)	80	(390.1%)
Total other income (expenses)		(793)	(883)	90	(10.2%)	(1,002)	209	(20.8%)
Income (loss) before income taxes		**1,029**	**1,530**	**(502)**	**(32.8%)**	**1,559**	**(531)**	**(34.0%)**
Provision for income taxes	41	893	617	(276)	(44.8%)	665	(228)	(34.3%)
Net income (loss)		**135**	**913**	**(778)**	**(85.2%)**	**894**	**(759)**	**(84.9%)**

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 31

Description of Filing Requirement:

Monthly Budget Variance Reports for 12 Months Pre-Base Period and as available, for Base Period and Subsequent Months

Response:

Please see attached documents monthly budget variance reports for period May 2014 through December 2015.

For the electronic version, see KAW_APP_EX31_012916.pdf.

Income Statement - Month To Date
E12_Kentucky American
May 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,903	6,833	70	1.03%	6,224	679	10.91%
Sewer revenues	2	25	23	2	6.98%	24	1	4.41%
Other operating revenues	3	178	143	36	24.92%	116	62	53.66%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,106	6,998	108	1.54%	6,364	743	11.67%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	8	23	15	64.37%	27	19	69.62%
Fuel and Power	7	364	317	(47)	(14.71)%	354	(10)	(2.68)%
Chemicals	8	146	161	16	9.76%	114	(32)	(27.98)%
Waste disposal	9	24	31	7	22.94%	31	8	24.17%
Total production costs		541	532	(9)	(1.71)%	526	(15)	(2.88)%
Salaries & Wages	10	604	602	(3)	(0.44)%	585	(19)	(3.24)%
Pensions	11	20	36	16	44.83%	70	50	71.70%
Group insurances	12	119	132	13	9.67%	151	32	21.28%
Other benefits	13	32	31	(1)	(3.32)%	30	(2)	(8.27)%
Total employee related		775	801	25	3.13%	836	61	7.26%
Service Company costs	14	759	767	8	1.05%	855	95	11.14%
Contracted services	15	83	74	(8)	(11.45)%	73	(10)	(13.84)%
Building maintenance and services	16	49	39	(10)	(25.82)%	30	(19)	(61.60)%
Telecommunication expenses	17	21	22	0	1.21%	27	5	20.29%
Postage printing and stationery	18	1	2	2	69.72%	1	1	44.96%
Office supplies & expenses	19	13	31	18	56.87%	9	(5)	(56.94)%
Advertising & marketing expenses	20	(1)	1	1	197.73%	1	2	176.75%
Employee related expense travel & entertainment	21	11	12	1	12.39%	16	6	35.08%
Miscellaneous expenses	22	132	138	7	4.90%	123	(8)	(6.59)%
Rents	23	1	3	2	73.77%	2	1	63.42%
Transportation	24	41	40	(2)	(3.83)%	32	(9)	(27.41)%
Operating supplies & services		351	362	12	3.24%	315	(36)	(11.37)%
Uncollectible Accounts Exp	25	177	42	(134)	(318.44)%	(117)	(293)	(251.10)%
Customer accounting other	26	84	84	0	0.55%	55	(29)	(52.37)%
Regulatory expense	27	20	20	0	(0.02)%	18	(2)	(13.08)%
Insurance other than group	28	50	56	6	10.68%	53	3	5.69%
Maintenance service & supplies	29	174	141	(33)	(23.45)%	138	(35)	(25.46)%
Total operation and maintenance		2,931	2,806	(125)	(4.46)%	2,679	(252)	(9.40)%
Depreciation	30	996	993	(3)	(0.29)%	942	(54)	(5.73)%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	152	143	(9)	(6.62)%	134	(19)	(13.96)%
Depreciation and Amortization		1,168	1,155	(13)	(1.10)%	1,094	(74)	(6.72)%
General taxes	33	447	442	(5)	(1.12)%	424	(23)	(5.33)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,546	4,403	(143)	(3.24)%	4,198	(348)	(8.29)%
Operating income (loss)		2,561	2,596	(35)	(1.35)%	2,166	395	18.22%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,076	1,013	(63)	(6.24)%	989	(87)	(8.85)%
Interest on Short-Term Bank Debt	38	4	5	1	10.85%	3	(1)	(31.49)%
Other Interest Expense	39	-	-			-		
Interest net		1,080	1,018	(63)	(6.16)%	992	(88)	(8.92)%
Allowance for other funds used during construction	40	20	10	11	110.06%	44	(23)	(53.67)%
Allowance for borrowed funds used during construction	41	9	5	5	106.63%	21	(11)	(54.42)%
Amortization of debt expense	42	8	7	0	(6.00)%	7	0	(6.00)%
Other Net	43	8	0	8		(10)	18	180.26%
Total other income (expenses)		(1,051)	(1,011)	(40)	(3.94)%	(945)	(106)	(11.21)%
Income (loss) before income taxes		1,510	1,585	(75)	(4.73)%	1,221	289	23.65%
Provision for income taxes	44	603	636	32	5.08%	456	(148)	(32.41)%
Income (loss) from continuing operations		907	949	(43)	(4.49)%	766	141	18.43%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		907	949	(43)	(4.49)%	766	141	18.43%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		907	949	(43)	(4.49)%	766	141	18.43%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		907	949	(43)	(4.49)%	766	141	18.43%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 MAY
O&V Details

	2014 Original Plan - Net Income to common stockholders	15,678,793									
	YTD Variance - Net Income to common stockholders	221,915									
											12 Months
Statement Lines	**Explanation**	**Total O&V**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	96,662		13,809	13,809	13,809	13,809	13,809	13,809	13,809	96,662
OPEB	Global - Corporate managed OPEB opportunity	60,197		8,600	8,600	8,600	8,600	8,600	8,600	8,600	60,197
Insurance other than group	Global - Premium opportunity per corporate guidance	43,437		6,205	6,205	6,205	6,205	6,205	6,205	6,205	43,437
Insurance other than group	Global - Retro vulnerability per corporate guidance	(20,936)								(20,936)	(20,936)
Salaries & Wages	Global - AIP True-up	-									-
		-									-
Other operating revenues	Rate Case Results - Other Revenue	84,583		12,083	12,083	12,083	12,083	12,083	12,083	12,083	84,583
Chemicals	Chemicals costs lower than plan assumption	138,105		22,882	29,499	21,626	18,971	14,559	15,908	14,660	138,105
Purchased water	Purchased Water - Winchester	78,000		-	26,000	26,000	26,000	-	-	-	78,000
Water revenues	Rate Case Results - Water Revenue	(543,268)		(110,444)	(183,714)	(145,404)	(116,142)	(69,517)	20,974	60,978	(543,268)
Purchased water	Purchase Water re-profile	19,727		2,818	2,818	2,818	2,818	2,818	2,818	2,818	19,727
Miscellaneous expenses	EA expenses - timing of the payments (donations, communications etc)	(31,182)		(4,455)	(4,455)	(4,455)	(4,455)	(4,455)	(4,455)	(4,455)	(31,182)
		-									-
Water revenues	Millerburg Acquision - Revenues	42,492						15,486	13,912	13,094	42,492
Sewer revenues	Millerburg Acquision - Revenues	39,065						14,237	12,790	12,038	39,065
Miscellaneous expenses	Millerburg Acquision - Expenses	(55,762)						(18,813)	(18,051)	(18,898)	(55,762)
Interest on long-term debt	Millerburg Acquision - Interest Expenses	(4,782)						(1,594)	(1,594)	(1,594)	(4,782)
		-									-
Water revenues	Unrealized BD - Midway Revenues	(75,024)						(25,008)	(25,008)	(25,008)	(75,024)
Miscellaneous expenses	Unrealized BD - Midway Expenses	41,536						17,778	11,854	11,904	41,536
Interest on long-term debt	Unrealized BD - Midway Interest	894		82	98	116	135	158	182	123	894
Allowance for other funds used during constru	Unrealized BD - Midway AFUDC	(25,836)		(2,313)	(2,728)	(3,145)	(3,566)	(4,082)	(4,693)	(5,309)	(25,836)
		-									-
Maintenance service & supplies		-									-
		-									-
		-									-
		-									-
Miscellaneous expenses	Identified opportunities to meet the budget	126,500		9,500	9,500	29,500	9,500	9,500	9,500	49,500	126,500
Miscellaneous expenses	unidentified opportunities to meet the budget	180,000								180,000	180,000

Income Statement - Month To Date
E12_Kentucky American
Jun 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,867	7,717	151	1.95%	7,052	816	11.57%
Sewer revenues	2	20	25	(5)	(18.18)%	25	(4)	(17.52)%
Other operating revenues	3	200	152	48	31.73%	99	100	100.78%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,088	7,893	194	2.46%	7,176	912	12.70%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	14	23	9	38.95%	18	4	23.90%
Fuel and Power	7	340	357	16	4.55%	322	(19)	(5.78)%
Chemicals	8	134	153	20	12.88%	134	1	0.71%
Waste disposal	9	23	36	13	35.86%	37	14	37.36%
Total production costs		511	569	58	10.16%	511	0	0.09%
Salaries & Wages	10	575	580	5	0.79%	524	(51)	(9.71)%
Pensions	11	19	36	16	45.70%	72	53	73.07%
Group insurances	12	117	132	15	11.38%	147	30	20.49%
Other benefits	13	27	29	1	4.71%	26	(1)	(5.11)%
Total employee related		738	776	37	4.81%	769	31	3.97%
Service Company costs	14	693	750	57	7.62%	705	12	1.72%
Contracted services	15	98	67	(31)	(45.84)%	67	(31)	(46.82)%
Building maintenance and services	16	49	39	(11)	(26.97)%	48	(2)	(3.69)%
Telecommunication expenses	17	21	22	0	0.93%	21	0	0.20%
Postage printing and stationery	18	1	3	1	45.00%	1	0	(31.90)%
Office supplies & expenses	19	17	34	17	48.87%	12	(6)	(49.59)%
Advertising & marketing expenses	20	0	1	1	97.30%	1	1	95.99%
Employee related expense travel & entertainment	21	7	22	15	67.95%	11	4	36.45%
Miscellaneous expenses	22	40	97	56	58.19%	104	64	61.31%
Rents	23	3	3	1	22.36%	2	0	(3.49)%
Transportation	24	41	40	(1)	(2.21)%	58	17	29.49%
Operating supplies & services		278	327	49	14.91%	325	47	14.36%
Uncollectible Accounts Exp	25	132	48	(84)	(177.03)%	514	382	74.30%
Customer accounting other	26	93	89	(4)	(4.44)%	78	(15)	(19.03)%
Regulatory expense	27	20	20	0	(0.02)%	18	(2)	(13.08)%
Insurance other than group	28	124	56	(68)	(120.98)%	46	(78)	(168.88)%
Maintenance service & supplies	29	196	134	(62)	(45.97)%	82	(114)	(139.52)%
Total operation and maintenance		2,786	2,768	(17)	(0.62)%	3,048	262	8.59%
Depreciation	30	997	997	0	0.03%	1,032	35	3.41%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	153	144	(9)	(6.50)%	133	(20)	(14.67)%
Depreciation and Amortization		1,169	1,160	(9)	(0.80)%	1,184	15	1.24%
General taxes	33	441	440	0	(0.03)%	410	(31)	(7.54)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,396	4,369	(27)	(0.61)%	4,641	246	5.29%
Operating income (loss)		3,692	3,524	168	4.75%	2,535	1,157	45.66%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	4	5	1	13.92%	3	(1)	(47.87)%
Other Interest Expense	39	-	-			-		
Interest net		1,017	1,018	1	0.10%	1,005	(12)	(1.22)%
Allowance for other funds used during construction	40	23	10	13	131.99%	61	(38)	(61.61)%
Allowance for borrowed funds used during construction	41	11	5	6	126.40%	29	(18)	(62.53)%
Amortization of debt expense	42	8	7	0	(3.09)%	7	0	(3.09)%
Other Net	43	(2)	0	(2)		7	(9)	(123.47)%
Total other income (expenses)		(992)	(1,011)	18	1.82%	(915)	(77)	(8.40)%
Income (loss) before income taxes		2,700	2,514	186	7.40%	1,619	1,080	66.72%
Provision for income taxes	44	1,072	990	(82)	(8.30)%	657	(416)	(63.28)%
Income (loss) from continuing operations		1,627	1,524	104	6.81%	963	665	69.06%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,627	1,524	104	6.81%	963	665	69.06%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,627	1,524	104	6.81%	963	665	69.06%
Common dividends	47	2,038	1,861	(177)	(9.52)%	1,332	(705)	(52.94)%
Current Year Retained Earnings		(410)	(337)	(73)	(21.74)%	(370)	(41)	(10.96)%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 JUN
O&V Details

	2014 Original Plan - Net Income to common stockholders	15,678,793								
	YTD Variance - Net Income to common stockholders	325,712	M	N	H	H	H	H	H	
			6	7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	82,853		13,809	13,809	13,809	13,809	13,809	13,809	82,853
OPEB	Global - Corporate managed OPEB opportunity	51,597		8,600	8,600	8,600	8,600	8,600	8,600	51,597
Insurance other than group	Global - Premium opportunity per corporate guidance	37,231		6,205	6,205	6,205	6,205	6,205	6,205	37,231
Insurance other than group	Global - Retro vulnerability per corporate guidance	(34,301)							(34,301)	(34,301)
Salaries & Wages	Global - AIP True-up	-								-
		-								-
Other operating revenues	Rate Case Results - Other Revenue	72,500		12,083	12,083	12,083	12,083	12,083	12,083	72,500
Chemicals	Chemicals costs lower than plan assumption	115,223		29,499	21,626	18,971	14,559	15,908	14,660	115,223
Purchased water	Purchased Water - Winchester	78,000		26,000	26,000	26,000	-	-	-	78,000
Water revenues	Rate Case Results - Water Revenue	(432,824)		(183,714)	(145,404)	(116,142)	(69,517)	20,974	60,978	(432,824)
Purchased water	Purchase Water re-profile	16,909		2,818	2,818	2,818	2,818	2,818	2,818	16,909
Miscellaneous expenses	EA expenses - timing of the payments (donations, communications etc)	(116,727)		(4,455)	(4,455)	(4,455)	(4,455)	(49,455)	(49,455)	(116,727)
		-								-
Water revenues	Millerburg Acquisition - Revenues	65,721			7,743	15,486	15,486	13,912	13,094	65,721
Sewer revenues	Millersburg Acquisition - Revenues	60,421			7,119	14,237	14,237	12,790	12,038	60,421
Miscellaneous expenses	Millersburg Acquisition - Expenses	(83,982)			(9,407)	(18,813)	(18,813)	(18,051)	(18,898)	(83,982)
Interest on long-term debt	Millersburg Acquisition - Interest Expenses	(975)			(108)	(217)	(217)	(217)	(217)	(975)
		-								-
Water revenues	Unrealized BD - Midway Revenues	(75,024)					(25,008)	(25,008)	(25,008)	(75,024)
Miscellaneous expenses	Unrealized BD - Midway Expenses	41,536					17,778	11,854	11,904	41,536
Interest on long-term debt	Unrealized BD - Midway Interest	812		98	116	135	158	182	123	812
Allowance for other funds used	Unrealized BD - Midway AFUDC	(23,523)		(2,728)	(3,145)	(3,566)	(4,082)	(4,693)	(5,309)	(23,523)
		-								-
Uncollectible Accounts Exp	June bad debt allowance topsided adjustment	262,971		262,971						262,971
Uncollectible Accounts Exp	Based on Dec 2013 Full Year Uncollectible % 1.35% (5 month normal, 7month after SAP live.	(343,612)		(62,740)	(62,381)	(62,368)	(56,931)	(51,111)	(48,080)	(343,612)
		-								-
		-								-
Miscellaneous expenses	Identified opportunities to meet the budget	117,000		9,500	29,500	9,500	9,500	9,500	49,500	117,000
Miscellaneous expenses	Unidentified opportunities to meet the budget	180,000							180,000	180,000
		-								-

AMERICAN WATER

KENTUCKY-AMERICAN COMPANY

FRP

June 2014

Monthly Financial Reviews

___ Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
___ All budget data presented is accurate.
___ All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
___ Variance analysis and commentary reflect financial results consistent with operation results.
___ All known items for the current period have been reflected in financial discussions.
___ System generated revenue variance summary is thoroughly and accurately prepared. (Regulated entities only)
___ Package includes a Management Judgment report. During the 1st and 2nd quarter of a calendar year, such report includes an item that details all known material changes since the submission of the last disclosure package or an item that states that there are no known material changes to the latest submitted disclosure package.
___ For the 1st and 2nd quarters of a calendar year, the Schedules of Environmental Costs and O&M Commitments are included.
___ Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

Finance Manager or Vice President (Signature)

(Date)

AMERICAN WATER

Income Statement - Quarter To Date
E12_Kentucky American
JUNQTD 2014
($ In Thousands)

		QTD Actuals	QTD Budget	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	21,530	21,218	312	1.47%	19,598	1,933	9.86%
Sewer revenues	2	72	75	(3)	(3.66)%	72	0	(0.14)%
Other operating revenues	3	550	434	116	26.75%	338	212	62.85%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		22,153	21,727	426	1.96%	20,008	2,145	10.72%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	36	69	34	48.39%	74	39	51.83%
Fuel and Power	7	955	958	3	0.32%	997	43	4.27%
Chemicals	8	384	440	57	12.89%	362	(21)	(5.85)%
Waste disposal	9	70	101	31	30.47%	104	34	32.82%
Total production costs		1,444	1,568	124	7.91%	1,538	94	6.11%
Salaries & Wages	10	1,752	1,778	26	1.46%	1,640	(112)	(6.83)%
Pensions	11	59	107	49	45.25%	212	153	72.24%
Group insurances	12	358	395	36	9.22%	448	90	20.00%
Other benefits	13	91	93	2	1.98%	86	(5)	(6.07)%
Total employee related		2,260	2,373	113	4.75%	2,386	125	5.25%
Service Company costs	14	2,205	2,294	89	3.86%	2,347	141	6.01%
Contracted services	15	221	208	(13)	(6.30)%	249	28	11.21%
Building maintenance and services	16	149	117	(32)	(27.24)%	104	(45)	(42.89)%
Telecommunication expenses	17	69	65	(4)	(6.82)%	72	3	4.68%
Postage printing and stationery	18	4	7	4	48.74%	5	2	28.33%
Office supplies & expenses	19	43	97	54	55.78%	41	(2)	(4.20)%
Advertising & marketing expenses	20	0	3	3	97.13%	2	2	95.15%
Employee related expense travel & entertainment	21	31	52	21	40.18%	28	(3)	(12.58)%
Miscellaneous expenses	22	249	347	97	28.02%	328	78	23.85%
Rents	23	6	10	3	35.47%	7	1	11.96%
Transportation	24	116	119	3	2.67%	107	(9)	(8.78)%
Operating supplies & services		888	1,024	136	13.24%	942	54	5.74%
Uncollectible Accounts Exp	25	466	131	(335)	(255.81)%	463	(3)	(0.62)%
Customer accounting other	26	265	263	(2)	(0.79)%	226	(39)	(17.11)%
Regulatory expense	27	60	60	0	(0.02)%	53	(7)	(13.08)%
Insurance other than group	28	225	169	(56)	(33.10)%	153	(72)	(46.86)%
Maintenance service & supplies	29	470	424	(46)	(10.78)%	353	(117)	(33.07)%
Total operation and maintenance		8,285	8,307	22	0.27%	8,462	177	2.09%
Depreciation	30	2,979	2,981	2	0.07%	2,912	(68)	(2.32)%
Amortization	31	59	58	(1)	(1.52)%	56	(3)	(5.00)%
Removal costs	32	457	429	(28)	(6.55)%	401	(57)	(14.20)%
Depreciation and Amortization		3,495	3,468	(27)	(0.78)%	3,368	(127)	(3.78)%
General taxes	33	1,332	1,324	(8)	(0.59)%	1,234	(98)	(7.95)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		13,112	13,100	(12)	(0.10)%	13,064	(48)	(0.37)%
Operating income (loss)		9,040	8,627	413	4.79%	6,944	2,097	30.20%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	3,038	3,039	1	0.03%	2,966	(72)	(2.42)%
Interest on Short-Term Bank Debt	38	13	13	0	2.91%	11	(2)	(22.88)%
Other Interest Expense	39	-	-			-		
Interest net		3,051	3,053	1	0.04%	2,977	(74)	(2.50)%
Allowance for other funds used during construction	40	52	28	24	86.85%	161	(109)	(67.94)%
Allowance for borrowed funds used during construction	41	24	13	11	82.70%	75	(52)	(68.65)%
Amortization of debt expense	42	23	22	(1)	(4.04)%	22	(1)	(4.04)%
Other Net	43	1	(4)	5	131.34%	(44)	45	102.86%
Total other income (expenses)		(2,997)	(3,038)	40	1.33%	(2,806)	(191)	(6.82)%
Income (loss) before income taxes		6,043	5,589	454	8.11%	4,137	1,905	46.05%
Provision for income taxes	44	2,409	2,229	(180)	(8.09)%	1,632	(776)	(47.56)%
Income (loss) from continuing operations		3,634	3,361	273	8.13%	2,505	1,129	45.07%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		3,634	3,361	273	8.13%	2,505	1,129	45.07%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		3,634	3,361	273	8.13%	2,505	1,129	45.07%
Common dividends	47	2,038	1,861	(177)	(9.52)%	1,332	(705)	(52.94)%
Current Year Retained Earnings		1,597	1,500	96	6.42%	1,173	424	36.13%

QTD INCOME STATEMENT

SCENARIO: QTD ACT vs. QTD PLAN

Operating Revenues:

Line 3 – Other operating revenues $0.116: Favorable variance driven by late fees $0.089 and application/initiation fees $0.048, partially offset by unrealized misc other revenues – sewer shut offs ($0.015) and reconnection fees ($0.008) & other.

Operating Expenses:

Line 25 – Uncollectible Accounts Expense ($0.335): Unfavorable variance driven by timing of write offs and higher bad debt reserve as a result of SAP implementation since May 2013. 12 month rolling uncollectible expenses was 1.70% (budget was 0.62%).

Provision for Income Taxes

Line 44 – Provision for income taxes variance explained at corporate.

SCENARIO: QTD ACT vs. QTD PRIOR YEAR

Operating Revenues:

Line 1 – Water revenues $1.933: Favorable variance driven by rate increase $1,486, higher usage $0.235, fire services $0.167, organic growth $0.021 and misc other $0.023. Higher usage was driven by Residential and Commercial classes, each was up by 1.2% and 6.9% respectively in term of gallons.

Line 3 – Other Operating Revenues $0.212: Favorable variance driven by late fees $0.181 and reconnection fees $0.042 (this is due to the tariff increase in the reconnection charge, not due to volume), partially offset by misc other combined $0.011.

Operating Expenses:

Line 11 – Pensions $0.153: Favorable variance driven by driven by increased discount rate and favorable asset returns in 2013

Line 29 – Maintenance service & supplies ($0.117): Unfavorable variance driven by one time pump repair expenses $0.069 at KRSII, higher amortization on tank painting expenses $0.016 as well as timing of other misc maintenance expenses $0.032 (chemical tank cleaning, maintenance material & supplies, etc).

Line 40 – Allowance for other funds used during construction ($0.109): Unfavorable variance driven primarily by lower AFUDC eligible assets balance in 2014 comparing with the same time year ago (2013 CWIP contained the Northern Connection IP which is now in service).

Provision for Income Taxes

Line 44 – Provision for Income Taxes variance explained at corporate.

AMERICAN WATER

Income Statement - Year To Date
E12_Kentucky American
JUNYTD 2014
($ In Thousands)

		YTD Actuals	YTD Budget	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	41,698	40,869	829	2.03%	37,396	4,302	11.50%
Sewer revenues	2	148	149	(1)	(0.42)%	146	2	1.35%
Other operating revenues	3	911	842	69	8.24%	743	168	22.62%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		42,757	41,860	898	2.14%	38,285	4,472	11.68%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	118	137	19	13.75%	172	55	31.65%
Fuel and Power	7	1,945	1,817	(129)	(7.08)%	1,853	(92)	(4.98)%
Chemicals	8	785	830	45	5.47%	759	(26)	(3.37)%
Waste disposal	9	130	200	70	35.02%	207	77	37.32%
Total production costs		2,978	2,984	6	0.19%	2,992	14	0.47%
Salaries & Wages	10	3,478	3,495	18	0.51%	3,212	(265)	(8.26)%
Pensions	11	124	215	91	42.41%	424	300	70.82%
Group insurances	12	724	789	65	8.21%	894	170	18.97%
Other benefits	13	181	186	5	2.44%	176	(5)	(2.67)%
Total employee related		4,507	4,685	178	3.80%	4,707	200	4.24%
Service Company costs	14	4,311	4,537	226	4.98%	4,730	419	8.86%
Contracted services	15	429	398	(31)	(7.85)%	428	(1)	(0.24)%
Building maintenance and services	16	316	234	(82)	(35.24)%	225	(92)	(40.86)%
Telecommunication expenses	17	140	129	(11)	(8.48)%	139	(1)	(0.68)%
Postage printing and stationery	18	8	15	7	43.90%	10	2	17.54%
Office supplies & expenses	19	95	193	98	50.66%	107	12	11.20%
Advertising & marketing expenses	20	1	6	4	78.10%	2	0	22.70%
Employee related expense travel & entertainment	21	63	85	23	26.41%	13	(49)	(365.37)%
Miscellaneous expenses	22	427	624	196	31.48%	576	149	25.82%
Rents	23	16	20	4	20.83%	21	6	27.18%
Transportation	24	257	238	(19)	(7.95)%	302	44	14.68%
Operating supplies & services		1,753	1,941	188	9.69%	1,823	70	3.84%
Uncollectible Accounts Exp	25	932	252	(679)	(269.15)%	570	(362)	(63.56)%
Customer accounting other	26	518	531	13	2.49%	489	(29)	(5.86)%
Regulatory expense	27	130	120	(9)	(7.61)%	106	(23)	(21.65)%
Insurance other than group	28	402	338	(65)	(19.16)%	348	(55)	(15.67)%
Maintenance service & supplies	29	1,100	801	(299)	(37.33)%	776	(324)	(41.75)%
Total operation and maintenance		16,630	16,189	(441)	(2.73)%	16,541	(89)	(0.54)%
Depreciation	30	5,956	5,946	(10)	(0.17)%	5,713	(244)	(4.26)%
Amortization	31	117	115	(2)	(1.52)%	112	(6)	(5.00)%
Removal costs	32	869	856	(13)	(1.52)%	799	(70)	(8.82)%
Depreciation and Amortization		6,943	6,918	(25)	(0.36)%	6,623	(320)	(4.83)%
General taxes	33	2,692	2,662	(30)	(1.11)%	2,455	(236)	(9.63)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		26,265	25,769	(496)	(1.93)%	25,620	(645)	(2.52)%
Operating income (loss)		16,493	16,091	401	2.49%	12,666	3,827	30.21%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	6,055	6,057	2	0.03%	5,894	(161)	(2.74)%
Interest on Short-Term Bank Debt	38	28	25	(3)	(13.08)%	24	(5)	(19.49)%
Other Interest Expense	39	-	-			-		
Interest net		6,083	6,082	(1)	(0.02)%	5,917	(166)	(2.80)%
Allowance for other funds used during construction	40	168	41	126	305.36%	315	(147)	(46.73)%
Allowance for borrowed funds used during construction	41	77	19	58	297.70%	148	(70)	(47.73)%
Amortization of debt expense	42	45	44	(1)	(3.17)%	44	(1)	(3.17)%
Other Net	43	(14)	(6)	(8)	(153.44)%	(46)	32	69.72%
Total other income (expenses)		(5,898)	(6,070)	173	2.85%	(5,545)	(353)	(6.37)%
Income (loss) before income taxes		10,595	10,021	574	5.73%	7,121	3,474	48.78%
Provision for income taxes	44	4,234	3,986	(249)	(6.24)%	2,832	(1,403)	(49.53)%
Income (loss) from continuing operations		6,361	6,035	326	5.40%	4,289	2,071	48.29%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		6,361	6,035	326	5.40%	4,289	2,071	48.29%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		6,361	6,035	326	5.40%	4,289	2,071	48.29%
Common dividends	47	4,765	4,719	(46)	(0.97)%	2,759	(2,006)	(72.73)%
Current Year Retained Earnings		1,596	1,316	280	21.27%	1,531	65	4.25%

YTD INCOMESTATEMENT

SCENARIO: YTD ACT vs. YTD PLAN

Operating Revenues:

Line 1 – Water Revenue $0.829: Favorable variance primarily driven by higher usage $0.883, higher fire revenues $0.029 and organic growth $0.012, partially offset by lower rate increase ($0.068) and misc other combined ($0.026). Higher usages mainly came from Residential and Commercial classes. The rate impact due to how the rate increase was spread between fixed and volumetric charges on budget because actual rate increase is all on the fixed charge side.

Operating Expenses:

Line 7 – Fuel & Power ($0.129): Unfavorable variance driven by higher system delivery (7.8%) and unplanned expenses for running Owenton plant during Jan/Feb.

Line 22 – Miscellaneous expenses $0.196: Favorable variance driven by timing of EA expenses $0.123K (lower income pay, donations, conservation, etc), one time inventory physical write off credit of $0.039 and misc other combined $0.034 (lab supplies, materials & supplies).

Line 24 – Uncollectible Accounts Exp ($0.679): Unfavorable variance driven by timing of write offs and higher bad debt reserve as a result of SAP implementation since May 2013. 12 month rolling uncollectible expenses was 1.70% (budget was 0.62%).

Line 29 – Maintenance service & supplies ($0.299): Unfavorable variance driven by one time no-lead brass fitting purchase $0.103 in Jan, higher expenses at Owenton plant $0.053 mainly due to Owenton water shortage issue $0.041 and some were not planned for due to anticipated plant closure, one time pump repair expenses at KRSII $0.069K and software license fees (SAP, Lotus note etc) actuals hit here but was budgeted under Office Supplies line; the remaining variance driven by timing of maintenance expenses related to repairs at different plants, lab testing, material & supplies and maintenance contract services.

Line 41 – Allowance for borrowed funds used during construction $0.126: Favorable variance driven by higher AFUDC eligible asset balance mainly due to Northern Connection project delay.

Provision for Income Taxes

Line 44 – Provision of Income Taxes variance explained at corporate.

SCENARIO: YTD ACT vs. YTD PRIOR YEAR

Operating Revenues:

Line 1 – Water Revenues $4.302: Favorable variance driven by rate increase $2.608, higher usage $1.277, fire services $0.029 and organic growth $0.012. The higher usages mainly derived from Residential and Commercial classes, both were up 6.8% and 8.9% respectively in term of gallons, while Industrial and SFR were relatively flat, OPA usage was under by 7.5%.

Line 3 – Other Operating Revenues $0.168: Favorable variance driven by late fees $0.085 and Application/Initiation Fee $0.073, partially offset by lower reconnection fees $0.039, unrealized misc other revenues $0.030 and other $0.020.

Operating Expenses:

Line 11 – Pensions $0.300: Favorable variance driven by increased discount rate and favorable asset returns in 2013.

Line 12 – Group Insurances $0.170: Favorable variance mainly driven by savings on premium primarily due to lower headcount in 2014 (Act. 121 vs. LY 128).

Line 22 – Miscellaneous expenses $0.149: Favorable variance driven by timing of some admin & general expenses $0.063, inventory physical scrap write off $0.051 and misc other different expenses combined $0.035 (lab supplies, discount available from vendors and material & supplies) $0.035.

Line 25 – Uncollectible Accounts Exp ($0.362): Unfavorable variance driven by higher allowance reserves and higher write offs due to methodology changes in May 2013 as result of SAP implementation.

Line 29 – Maintenance service & supplies $(0.324): Unfavorable variance driven by one time no-lead brass fitting purchase $0.103 in Jan 2014, higher expenses at Owenton plant $0.053 mainly due to Owenton Water shortage issue $0.041 and some were not planned for due to anticipated plant closure, one time pump repair expenses at KRSII $0.069 in May 2014 and software license fees (SAP, Lotus note etc) actuals hit here but was budgeted under Office Supplies line, paving/backfill $0.053 and higher amortization of deferred tank painting expenses $0.038, the remaining variance driven by timing of maintenance expenses related to repairs at different plants, lab testing, material & supplies and maintenance contract services.

Line 33 – General taxes ($0.236): Unfavorable variance driven by higher property taxes $0.206 due to additional capital investment, higher payroll taxes $0.019, remaining variance driven by higher property taxes discount & utility reg assessment $0.012 which is based on revenue.

Line 41 – Allowance for other funds used during construction ($0.147): Unfavorable variance driven by lower allowance AFUDC eligible assets in 2014.

Provision for Income Taxes

Line 44 – Provision for Income taxes variance explained at corporate.

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary ($ in Thousands)

	Budget			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Prior Year	7,893	21,727	41,860	7,176	20,008	38,285
Rates	(117)	(140)	(68)	429	1,486	2,608
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acuisitions	-	-	-	-	-	-
Sewer acquisitions	-	-	-	-	-	-
Other	60	8	(413)	10	23	99
Fire	24	48	29	45	167	224
Organic growth	2	6	12	17	21	93
Impact of weather	-	-	-	-	-	-
Other Demand/Consumption	181	390	1,269	315	235	1,277
Sewer	(5)	(3)	(1)	(4)	0	2
Other revenue variance	48	116	69	100	212	168
Actual revenues	8,088	22,153	42,757	8,088	22,153	42,757
Total variance	194	426	898	912	2,145	4,472

Balance Sheet
E12_Kentucky American
JUNYTD 2014
($ In Thousands)

		Actuals	Budget	Increase (Decrease)	% Variance	Prior Yr. Dec	Increase (Decrease)	% Variance
Assets								
Utility Plant in Service	1	639,744	624,053	15,692	2.5%	618,711	21,034	3.4%
Construction Work in Progress	2	6,538	20,726	(14,188)	(68.5)%	20,596	(14,058)	(68.3)%
Utility Plant Accumulated Depreciation/Amortization	3	(125,567)	(124,774)	(793)	(0.6)%	(120,270)	(5,298)	(4.4)%
Total Utility Plant Adjustments	4	230	234	(4)	(1.7)%	234	(4)	(1.7)%
Utility property net of accumulatd depreciation	5	520,945	520,239	707	0.1%	519,271	1,674	0.3%
Nonutility property net of accumulatd depreciation	6	250	251	(1)	(0.3)%	250	0	0.0%
Total Property Plant and Equipment		521,195	520,490	706	0.1%	519,521	1,674	0.3%
Cash and Cash Equivalents	7	(737)	0	(737)	(90,475,136,58	(160)	(577)	(360.7)%
Restricted funds-current	8	-	-			-		
Accounts receivable net	9	4,997	5,321	(324)	(6.1)%	3,246	1,751	53.9%
Unbilled Revenues	10	4,097	2,826	1,270	44.9%	4,965	(868)	(17.5)%
Materials and supplies	11	830	563	267	47.4%	638	192	30.1%
Current portion of deferred tax asset	12	-	-			-		
Assets of discontinued operations	13	-	-			-		
Other Current Assets	14	445	574	(129)	(22.5)%	326	119	36.5%
Total Current Assets		9,631	9,284	347	3.7%	9,015	616	6.8%
Regulatory assets	15	14,683	13,020	1,663	12.8%	13,812	870	6.3%
Other investments	16	-	-			-		
Restricted Funds - Long-term	17	-	-			-		
Goodwill	18	0	0	0		0	0	
Intangible assets	19	-	-			-		
Other Long Term Assets	20	140	136	4	2.6%	150	(10)	(6.8)%
Total Regulatory & Other L/T Assets		14,822	13,156	1,666	12.7%	13,962	860	6.2%
Total Assets		545,648	542,930	2,719	0.5%	542,498	3,151	0.6%
Capital & Liabilities								
Common Stock	21	36,569	36,569	0	0.0%	36,569	0	0.0%
Paid in Capital	22	78,957	78,970	(12)	0.0%	78,920	38	0.0%
Retained Earnings	23	49,868	48,776	1,092	2.2%	48,272	1,596	3.3%
Accumulated other comprehensive income	24	-	-			-		
Treasury stock	25	-	-			-		
Total Stockholders' equity		165,394	164,314	1,080	0.7%	163,761	1,634	1.0%
Preferred Stock without mandatory redemption requirements	26	0	0	0		0	0	
Noncontrolling Interest	27	6	6	0	0.0%	6	0	0.0%
Total Equity		165,401	164,321	1,080	0.7%	163,767	1,634	1.0%
Long term debt	28	195,749	195,749	0	0.0%	195,749	0	0.0%
Redeemable preferred stock at redemption value	29	4,500	4,500	0	0.0%	4,500	0	0.0%
Total Long-term debt		200,249	200,249	0	0.0%	200,249	0	0.0%
Total Capitalization		365,650	364,570	1,080	0.3%	364,016	1,634	0.4%
Short Term Debt	30	17,378	17,798	(420)	(2.4)%	19,804	(2,426)	(12.2)%
Current Portion of Long-term Debt	31	0	0	0		0	0	
Current portion of redeemable stock at redemption value	32	-	-			-		
Accounts Payable	33	3,798	4,161	(363)	(8.7)%	5,416	(1,618)	(29.9)%
Taxes Accrued	34	1,777	5,024	(3,246)	(64.6)%	(532)	2,309	434.1%
Interest Accrued	35	2,090	2,359	(269)	(11.4)%	2,090	0	0.0%
Liabilities of Discontinued Operations	36	-	-			-		
Other current liabilities	37	3,601	4,418	(816)	(18.5)%	3,037	565	18.6%
Total Current Liabilities		28,644	33,759	(5,115)	(15.2)%	29,814	(1,171)	(3.9)%
Customer Advances for Construction	38	12,232	13,140	(909)	(6.9)%	12,192	39	0.3%
Deferred Income Taxes	39	66,287	61,151	5,136	8.4%	64,908	1,379	2.1%
Deferred Investment tax credits	40	667	667	0	0.0%	709	(42)	(6.0)%
Regulatory liability	41	16,473	15,439	1,034	6.7%	15,785	688	4.4%
Accrued Pension	42	(2,232)	(2,057)	(176)	(8.5)%	(2,134)	(99)	(4.6)%
Accrued postretirement benefit expense	43	684	627	56	9.0%	656	28	4.2%
Other Deferred Credits	44	2,946	3,122	(176)	(5.6)%	2,595	352	13.6%
Regulatory & Other Long Term Liabilities		97,056	92,090	4,966	5.4%	94,712	2,344	2.5%
Contributions in aid of construction	45	54,299	52,511	1,788	3.4%	53,955	344	0.6%
Total Capital and Liabilities		545,648	542,930	2,719	0.5%	542,498	3,151	0.6%

YTD BALANCE SHEET

SCENARIO: YTD ACT vs. DEC 2013

Assets:

Line 1 – Utility Plant in Service $21.034: Increase due to new assets are currently in service including investment projects $18.154 (primarily the Northern Connection), recurring projects $2.623, BT $0.461, and Developer funded projects $0.668.

Line 2 – Construction Work in Progress ($14.058): Decrease in balance due to CWIP transfer into UPIS ($21.813) (Land purchase/easements $14.208, Leestown Relo $2.562, Northern connection $0.961, RRS Chlorine Scrubber replacement $0.310, etc), capital spending in 2014 $8.066 (Todds Road KY relo $0.615, RRS Filter Building replacement $0.357, etc.)

Line 3 – Utility Plant Accumulated Depreciation/Amortization ($5.298): Decrease in balance due to YTD accumulated depreciation UPIS ($6.523) offset by retirements.

Line 9 – Account receivable net $1,751: Increase in balance due to timing of the utility customer accounts receivable $2.326, receivable from affiliated companies ($0.193) and allowance for uncollectible accounts ($0.411).

Line 10 – Unbilled Revenue ($0.868): Decrease due to timing of billings as SAP go-live May 2013, system improvement has been made since then.

Line 11 – Material and Supplies $0.192: Increase primarily due to timing of plant material $0.111, chemical purchases $0.028 and other material & supplies $0.052.

Line 14 – Other Current Assets $0.119: Increase due to prepaid insurance $0.212 partially offset by prepaid other different services.

Line 15 – Regulatory Assets $0.870: Increase due to tank paintings $1.255, 2013 rate case expense ($0.127) and tax Items net ($.188).

Liabilities:

Line 22 – Retained Earnings $1.596: Increase due to addition of net income since December 2013.

Line 29 – Short Term Debt ($2.426): Decrease due to cash changes including AP, A/R, payroll, tax and interest payments.

Line 32 – Account Payable ($1.618): Decrease due to timing of payments for goods and services.

Line 33 - Taxes accrued $2.309: Increase due to timing of property tax payment $2.339 in 2014.

Line 36 – Other Current Liabilities $0.565: Increase due to GRIR $0.624, accrued liabilities $0.056 (power, legal, insurance, etc.) and other current liability – tax sensitive ($0.115).

Line 40 – Regulatory Liability $0.688: Increase due to cost of removals.

Line 43 – Other Deferred Credits $0.352: Increase due to reduction to FIN 48 Reserve Federal related to repairs project.

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Jul 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,394	8,565	(171)	(2.00)%	6,856	1,538	22.44%
Sewer revenues	2	28	23	5	23.49%	21	7	35.25%
Other operating revenues	3	209	157	52	33.15%	187	21	11.27%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,631	8,744	(114)	(1.30)%	7,064	1,567	22.18%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	(48)	21	69	331.48%	30	78	261.61%
Fuel and Power	7	391	372	(19)	(5.22)%	326	(65)	(20.05)%
Chemicals	8	136	198	62	31.18%	180	44	24.31%
Waste disposal	9	22	36	14	38.83%	33	11	33.96%
Total production costs		502	627	125	19.97%	569	68	11.87%
Salaries & Wages	10	608	631	23	3.65%	631	24	3.75%
Pensions	11	20	36	16	44.74%	74	55	73.44%
Group insurances	12	125	132	6	4.84%	166	41	24.69%
Other benefits	13	32	30	(2)	(5.19)%	16	(15)	(93.54)%
Total employee related		784	828	44	5.29%	888	104	11.72%
Service Company costs	14	758	784	26	3.26%	761	3	0.37%
Contracted services	15	94	66	(28)	(41.50)%	74	(20)	(27.55)%
Building maintenance and services	16	79	39	(40)	(103.40)%	30	(49)	(160.32)%
Telecommunication expenses	17	26	22	(4)	(18.75)%	25	0	(1.23)%
Postage printing and stationery	18	2	2	0	0.01%	5	2	51.29%
Office supplies & expenses	19	23	32	8	26.90%	14	(9)	(61.43)%
Advertising & marketing expenses	20	2	1	(1)	(98.80)%	-	(2)	
Employee related expense travel & entertainment	21	17	30	14	44.99%	13	(4)	(26.72)%
Miscellaneous expenses	22	134	92	(42)	(45.40)%	101	(33)	(33.20)%
Rents	23	0	3	3	93.56%	3	3	93.18%
Transportation	24	42	40	(2)	(5.45)%	41	0	(1.06)%
Operating supplies & services		419	327	(92)	(28.01)%	307	(112)	(36.57)%
Uncollectible Accounts Exp	25	18	53	35	65.59%	(39)	(58)	(146.27)%
Customer accounting other	26	80	84	4	5.04%	100	20	20.17%
Regulatory expense	27	20	20	0	(0.02)%	18	(2)	(13.08)%
Insurance other than group	28	50	56	7	11.80%	54	4	7.85%
Maintenance service & supplies	29	188	129	(59)	(45.45)%	127	(62)	(48.62)%
Total operation and maintenance		2,819	2,909	90	3.08%	2,784	(35)	(1.25)%
Depreciation	30	998	1,000	2	0.21%	1,030	32	3.15%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	153	144	(9)	(5.92)%	133	(19)	(14.43)%
Depreciation and Amortization		1,170	1,163	(7)	(0.58)%	1,182	12	1.04%
General taxes	33	413	443	30	6.73%	417	3	0.83%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,402	4,515	113	2.49%	4,383	(19)	(0.43)%
Operating income (loss)		4,228	4,230	(1)	(0.02)%	2,681	1,548	57.73%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	4	5	1	20.50%	3	(1)	(24.06)%
Other Interest Expense	39	-	-			-		
Interest net		1,017	1,018	1	0.13%	1,005	(12)	(1.16)%
Allowance for other funds used during construction	40	12	11	1	7.63%	63	(51)	(80.90)%
Allowance for borrowed funds used during construction	41	5	5	0	5.04%	29	(24)	(81.36)%
Amortization of debt expense	42	7	7	0	(2.03)%	7	0	(2.03)%
Other Net	43	6	0	6		4	3	70.33%
Total other income (expenses)		(1,001)	(1,009)	9	0.85%	(917)	(84)	(9.13)%
Income (loss) before income taxes		3,228	3,220	7	0.23%	1,764	1,464	83.00%
Provision for income taxes	44	1,289	1,279	(10)	(0.81)%	708	(581)	(82.02)%
Income (loss) from continuing operations		1,939	1,942	(3)	(0.15)%	1,056	883	83.66%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,939	1,942	(3)	(0.15)%	1,056	883	83.66%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,939	1,942	(3)	(0.15)%	1,056	883	83.66%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,939	1,942	(3)	(0.15)%	1,056	883	83.66%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 JUL
O&V Details

	2014 Original Plan - Net Income to common stockholders	15,678,793								
	YTD Variance - Net Income to common stockholders	322,790	M	N	H	H	H	H	H	
			6	7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	69,044			13,809	13,809	13,809	13,809	13,809	69,044
OPEB	Global - Corporate managed OPEB opportunity	42,998			8,600	8,600	8,600	8,600	8,600	42,998
Insurance other than group	Global - Premium opportunity per corporate guidance	31,026			6,205	6,205	6,205	6,205	6,205	31,026
Insurance other than group	Global - Retro vulnerability per corporate guidance	(34,301)							(34,301)	(34,301)
Water revenues	Rate Case Results - Water Revenue	(249,110)			(145,404)	(116,142)	(69,517)	20,974	60,978	(249,110)
Other operating revenues	Rate Case Results - Other Revenue	110,417			22,083	22,083	22,083	22,083	22,083	110,417
Chemicals	Chemicals costs lower than plan assumption	85,724			21,626	18,971	14,559	15,908	14,660	85,724
Waste disposal	Effeciency Savings	60,000			12,000	12,000	12,000	12,000	12,000	60,000
Purchased water	Purchase Water re-profile	14,091			2,818	2,818	2,818	2,818	2,818	14,091
Salaries & Wages	Vacancies over plan; Sep reclass capitalizaton for non productive etc	45,000			5,000	25,000	5,000	5,000	5,000	45,000
Contracted services	Reclass Legal expenses for Millersburg	50,000			50,000	-	-	-	-	50,000
Building maintenance and servi	Plan too low for electricity/gas/security	(25,000)			(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(25,000)
Office supplies & expenses	EA expenses - timing of the payments (donations, communications etc)	50,000			10,000	10,000	10,000	10,000	10,000	50,000
Miscellaneous expenses	EA expenses - timing of the payments (donations, communications etc)	(112,273)			(4,455)	(4,455)	(4,455)	(49,455)	(49,455)	(112,273)
Depreciation	Estimate of Savings from Asset Study	22,000							22,000	22,000
Water revenues	Millerburg Acquisition - Revenues	65,721			7,743	15,486	15,486	13,912	13,094	65,721
Sewer revenues	Millersburg Acquisition - Revenues	60,421			7,119	14,237	14,237	12,790	12,038	60,421
Purchased water	Millersburg Acquisition - Purchase water from Paris until connection	(40,000)			(4,000)	(9,000)	(9,000)	(9,000)	(9,000)	
Miscellaneous expenses	Millersburg Acquisition - Expenses	(83,982)			(9,407)	(18,813)	(18,813)	(18,051)	(18,898)	(83,982)
Interest on long-term debt	Millersburg Acquisition - Interest Expenses	(975)			(108)	(217)	(217)	(217)	(217)	(975)
Water revenues	Unrealized BD - Midway Revenues	(75,024)					(25,008)	(25,008)	(25,008)	(75,024)
Miscellaneous expenses	Unrealized BD - Midway Expenses	41,536					17,778	11,854	11,904	41,536
Interest on long-term debt	Unrealized BD - Midway Interest	714			116	135	158	182	123	714
Allowance for other funds used	Unrealized BD - Midway AFUDC	(20,795)			(3,145)	(3,566)	(4,082)	(4,693)	(5,309)	(20,795)
Uncollectible Accounts Exp	June bad debt allowance topsided adjustment	262,971				262,971				262,971
Uncollectible Accounts Exp	Based on Dec 2013 Full Year Uncollectible % 1.35% (5 month normal, 7month after SAP live.	(280,872)			(62,381)	(62,368)	(56,931)	(51,111)	(48,080)	(280,872)
Water revenues	Refund 2012 -2013 Keeneland bad meter reads	(80,000)			(80,000)					(80,000)
Miscellaneous expenses	Identified opportunities to meet the budget	124,000			29,500	15,000	15,000	15,000	49,500	124,000
Water revenues	Lower Aug System delivery - projected	(104,000)			(104,000)					(104,000)

Income Statement - Month To Date
E12_Kentucky American
Aug 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,849	8,516	(667)	(7.83)%	7,765	84	1.08%
Sewer revenues	2	21	24	(3)	(10.62)%	26	(5)	(18.09)%
Other operating revenues	3	239	172	66	38.39%	225	14	6.18%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,109	8,712	(603)	(6.92)%	8,016	93	1.16%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	15	18	3	17.90%	28	14	48.19%
Fuel and Power	7	342	377	36	9.50%	319	(23)	(7.25)%
Chemicals	8	189	147	(42)	(28.34)%	198	9	4.35%
Waste disposal	9	23	32	9	29.23%	31	9	27.45%
Total production costs		568	575	7	1.16%	576	8	1.33%
Salaries & Wages	10	538	580	42	7.27%	561	23	4.11%
Pensions	11	20	36	16	43.83%	70	50	71.32%
Group insurances	12	109	132	22	16.76%	146	36	24.82%
Other benefits	13	28	35	7	20.66%	30	2	6.93%
Total employee related		696	783	87	11.14%	807	111	13.79%
Service Company costs	14	685	738	52	7.09%	748	62	8.34%
Contracted services	15	43	65	22	33.35%	102	58	57.42%
Building maintenance and services	16	55	39	(16)	(40.94)%	36	(19)	(54.09)%
Telecommunication expenses	17	27	22	(6)	(26.09)%	22	(5)	(23.45)%
Postage printing and stationery	18	1	2	1	40.84%	3	2	51.93%
Office supplies & expenses	19	9	31	22	70.87%	12	3	22.05%
Advertising & marketing expenses	20	0	1	1	143.01%	-	0	
Employee related expense travel & entertainment	21	31	14	(17)	(124.91)%	17	(15)	(87.23)%
Miscellaneous expenses	22	82	68	(13)	(19.13)%	72	(9)	(12.94)%
Rents	23	(1)	3	4	136.93%	4	5	129.49%
Transportation	24	43	40	(3)	(7.28)%	38	(5)	(13.99)%
Operating supplies & services		290	286	(5)	(1.62)%	305	14	4.71%
Uncollectible Accounts Exp	25	53	53	(1)	(1.71)%	143	90	62.71%
Customer accounting other	26	94	89	(5)	(5.43)%	99	4	4.44%
Regulatory expense	27	20	20	0	(0.02)%	18	(2)	(13.08)%
Insurance other than group	28	50	56	7	11.55%	53	3	6.46%
Maintenance service & supplies	29	219	132	(88)	(66.42)%	157	(62)	(39.77)%
Total operation and maintenance		2,676	2,731	55	2.01%	2,905	229	7.87%
Depreciation	30	1,002	1,003	1	0.06%	946	(56)	(5.90)%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	153	144	(9)	(5.91)%	133	(20)	(14.88)%
Depreciation and Amortization		1,174	1,166	(8)	(0.71)%	1,098	(77)	(6.97)%
General taxes	33	442	439	(3)	(0.69)%	413	(29)	(7.01)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,293	4,336	44	1.00%	4,416	123	2.79%
Operating income (loss)		3,816	4,376	(560)	(12.79)%	3,600	216	6.00%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	4	4	0	8.41%	3	(1)	(20.11)%
Other Interest Expense	39	-	-			0	0	100.00%
Interest net		1,016	1,017	1	0.06%	1,005	(11)	(1.14)%
Allowance for other funds used during construction	40	16	15	1	8.98%	45	(29)	(64.99)%
Allowance for borrowed funds used during construction	41	7	7	0	6.40%	21	(14)	(65.82)%
Amortization of debt expense	42	8	7	0	(4.15)%	7	0	(4.15)%
Other Net	43	(25)	0	(25)		(10)	(15)	(150.99)%
Total other income (expenses)		(1,026)	(1,003)	(23)	(2.30)%	(956)	(70)	(7.34)%
Income (loss) before income taxes		2,790	3,373	(583)	(17.28)%	2,644	146	5.51%
Provision for income taxes	44	1,114	1,320	205	15.55%	1,062	(52)	(4.94)%
Income (loss) from continuing operations		1,676	2,053	(378)	(18.39)%	1,583	93	5.89%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,676	2,053	(378)	(18.39)%	1,583	93	5.89%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,676	2,053	(378)	(18.39)%	1,583	93	5.89%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,676	2,053	(378)	(18.39)%	1,583	93	5.89%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 AUG
O&V Details

	2014 Original Plan - Net Income to common stockholders	15,678,793								
	YTD Variance - Net Income to common stockholders	(54,838)	M	N	H	H	H	H	H	
			6	7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	55,235				13,809	13,809	13,809	13,809	55,235
OPEB	Global - Corporate managed OPEB opportunity	34,398				8,600	8,600	8,600	8,600	34,398
Insurance other than group	Global - Premium opportunity per corporate guidance	24,821				6,205	6,205	6,205	6,205	24,821
Insurance other than group	Global - Retro vulnerability per corporate guidance	(34,301)							(34,301)	(34,301)
Water revenues	Rate Case Results - Water Revenue	(103,707)				(116,142)	(69,517)	20,974	60,978	(103,707)
Other operating revenues	Rate Case Results - Other Revenue	88,333				22,083	22,083	22,083	22,083	88,333
Chemicals	Chemicals costs lower than plan assumption	64,098				18,971	14,559	15,908	14,660	64,098
Waste disposal	Effeciency Savings	48,000				12,000	12,000	12,000	12,000	48,000
Purchased water	Purchase Water re-profile	11,273				2,818	2,818	2,818	2,818	11,273
Salaries & Wages	Vacancies over plan; Sep reclass capitalizaton for non productive etc	40,000				25,000	5,000	5,000	5,000	40,000
Contracted services	Reclass Legal expenses for Millersburg	-				-	-	-	-	-
Building maintenance and servi	Plan too low for electricity/gas/security	(20,000)				(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Chemicals	Higher chemical expenses due to higher than normal rainfal	(20,000)				(20,000)				(20,000)
Miscellaneous expenses	EA expenses - timing of the payments (donations, communications etc)	(107,818)				(4,455)	(4,455)	(49,455)	(49,455)	(107,818)
Depreciation	Estimate of Savings from Asset Study	22,000							22,000	22,000
Water revenues	Millerburg Acquisition - Revenues	57,978				15,486	15,486	13,912	13,094	57,978
Sewer revenues	Millersburg Acquisition - Revenues	53,302				14,237	14,237	12,790	12,038	53,302
Purchased water	Millersburg Acquisition - Purchase water from Paris until connection	(36,000)				(9,000)	(9,000)	(9,000)	(9,000)	
Miscellaneous expenses	Millersburg Acquisition - Expenses	(74,575)				(18,813)	(18,813)	(18,051)	(18,898)	(74,575)
Interest on long-term debt	Millersburg Acquisition - Interest Expenses	(867)				(217)	(217)	(217)	(217)	(867)
Water revenues	Unrealized BD - Midway Revenues	(75,024)					(25,008)	(25,008)	(25,008)	(75,024)
Miscellaneous expenses	Unrealized BD - Midway Expenses	41,536					17,778	11,854	11,904	41,536
Interest on long-term debt	Unrealized BD - Midway Interest	598				135	158	182	123	598
Allowance for other funds used	Unrealized BD - Midway AFUDC	(17,650)				(3,566)	(4,082)	(4,693)	(5,309)	(17,650)
Uncollectible Accounts Exp	June bad debt allowance topsided adjustment - shifts in aging adjustment topsided	-								-
Uncollectible Accounts Exp	Based on 3mth rolling of 1.08%, assumed 1.1% for remainder of 2014	(140,554)				(37,776)	(36,685)	(33,829)	(32,264)	(140,554)
Water revenues	Lower Sept System delivery - projected	(270,000)				(270,000)				(270,000)
Miscellaneous expenses	Identified opportunities to meet the budget	94,500				15,000	15,000	15,000	49,500	94,500
Other Net	Fin48 Reversal to P&L per finalized approved audit	1,333,333							1,333,333	1,333,333
Contracted services	contract services with BD	(40,000)				(10,000)	(10,000)	(10,000)	(10,000)	(40,000)
General taxes	Property tax Vs based on new assesment - still to be determined	(200,000)							(200,000)	(200,000)
Service Company costs	Changes in Service Company fees per corporate	(165,516)	-	-	-	(41,379)	(41,379)	(41,379)	(41,379)	(165,516)

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Sep 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,579	8,514	(935)	(10.98)%	8,700	(1,121)	(12.88)%
Sewer revenues	2	35	28	7	24.34%	27	7	26.87%
Other operating revenues	3	185	159	26	16.38%	170	15	8.89%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,799	8,701	(902)	(10.36)%	8,898	(1,098)	(12.34)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	33	20	(13)	(61.47)%	(47)	(80)	(169.91)%
Fuel and Power	7	301	329	28	8.61%	333	32	9.66%
Chemicals	8	167	128	(39)	(30.20)%	161	(6)	(3.71)%
Waste disposal	9	23	31	8	27.07%	10	(13)	(121.88)%
Total production costs		524	509	(15)	(2.85)%	457	(67)	(14.56)%
Salaries & Wages	10	572	600	28	4.70%	573	1	0.17%
Pensions	11	20	36	16	44.57%	71	51	72.03%
Group insurances	12	121	132	10	7.86%	152	31	20.35%
Other benefits	13	27	29	2	7.36%	27	0	(0.78)%
Total employee related		740	797	57	7.11%	823	83	10.06%
Service Company costs	14	777	762	(15)	(1.92)%	732	(44)	(6.05)%
Contracted services	15	81	63	(17)	(27.58)%	41	(40)	(96.65)%
Building maintenance and services	16	65	39	(26)	(65.72)%	45	(20)	(43.74)%
Telecommunication expenses	17	21	22	1	4.56%	20	0	(0.55)%
Postage printing and stationery	18	1	2	1	48.61%	1	0	(34.16)%
Office supplies & expenses	19	9	32	23	70.52%	11	2	14.81%
Advertising & marketing expenses	20	2	1	(1)	(76.35)%	-	(2)	
Employee related expense travel & entertainment	21	26	14	(11)	(77.93)%	13	(13)	(98.26)%
Miscellaneous expenses	22	101	70	(30)	(42.80)%	122	21	17.28%
Rents	23	4	3	(1)	(16.41)%	1	(3)	(305.39)%
Transportation	24	38	40	1	3.70%	39	1	1.30%
Operating supplies & services		347	287	(59)	(20.70)%	293	(54)	(18.45)%
Uncollectible Accounts Exp	25	(176)	53	229	435.48%	63	239	380.01%
Customer accounting other	26	93	89	(3)	(3.81)%	92	(1)	(1.06)%
Regulatory expense	27	20	20	0	(0.02)%	18	(2)	(13.08)%
Insurance other than group	28	34	56	23	40.09%	48	15	30.34%
Maintenance service & supplies	29	127	118	(9)	(7.85)%	136	9	6.58%
Total operation and maintenance		2,485	2,691	207	7.69%	2,662	178	6.67%
Depreciation	30	1,010	1,005	(5)	(0.51)%	1,010	0	(0.05)%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	153	145	(8)	(5.74)%	135	(18)	(13.66)%
Depreciation and Amortization		1,183	1,169	(14)	(1.17)%	1,163	(20)	(1.70)%
General taxes	33	774	440	(334)	(75.97)%	414	(360)	(87.10)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,441	4,300	(141)	(3.28)%	4,239	(202)	(4.78)%
Operating income (loss)		3,358	4,401	(1,043)	(23.69)%	4,659	(1,301)	(27.92)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	3	5	2	40.15%	3	0	(10.83)%
Other Interest Expense	39	0	-	0		-	0	
Interest net		1,016	1,018	2	0.21%	1,004	(11)	(1.11)%
Allowance for other funds used during construction	40	26	18	8	44.52%	50	(24)	(48.08)%
Allowance for borrowed funds used during construction	41	12	8	3	41.04%	35	(23)	(65.82)%
Amortization of debt expense	42	8	7	0	(2.70)%	8	0	0.04%
Other Net	43	4	0	4		7	(3)	(40.01)%
Total other income (expenses)		(981)	(999)	18	1.77%	(920)	(61)	(6.64)%
Income (loss) before income taxes		2,377	3,402	(1,025)	(30.13)%	3,739	(1,362)	(36.42)%
Provision for income taxes	44	173	1,341	1,168	87.11%	1,506	1,333	88.53%
Income (loss) from continuing operations		2,204	2,062	143	6.92%	2,233	(29)	(1.29)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		2,204	2,062	143	6.92%	2,233	(29)	(1.29)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		2,204	2,062	143	6.92%	2,233	(29)	(1.29)%
Common dividends	47	2,727	2,414	(313)	(12.95)%	1,881	(846)	(45.00)%
Current Year Retained Earnings		(523)	(353)	(170)	(48.23)%	352	(875)	(248.38)%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 SEP
O&V Details

	2014 Original Plan - Net Income to common stockholders	15,678,793							
	YTD Variance - Net Income to common stockholders	87,851	N	H	H	H	H	H	
			7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	41,427				13,809	13,809	13,809	41,427
OPEB	Global - Corporate managed OPEB opportunity	25,799				8,600	8,600	8,600	25,799
Insurance other than group	Global - Premium opportunity per corporate guidance	18,616				6,205	6,205	6,205	18,616
Insurance other than group	Global - Retro vulnerability per corporate guidance	(34,301)						(34,301)	(34,301)
Water revenues	Rate Case Results - Water Revenue	12,435				(69,517)	20,974	60,978	12,435
Other operating revenues	Rate Case Results - Other Revenue	66,250				22,083	22,083	22,083	66,250
Chemicals	Chemicals costs lower than plan assumption	45,127				14,559	15,908	14,660	45,127
Waste disposal	Effeciency Savings	36,000				12,000	12,000	12,000	36,000
Purchased water	Purchase Water re-profile	8,455				2,818	2,818	2,818	8,455
Salaries & Wages	Vacancies over plan; Sep reclass capitalizaton for non productive etc	15,000				5,000	5,000	5,000	15,000
Contracted services	Reclass Legal expenses for Millersburg	43,000				43,000	-	-	43,000
Building maintenance and servi	Plan too low for electricity/gas/security	(15,000)				(5,000)	(5,000)	(5,000)	(15,000)
Chemicals	Higher chemical expenses due to higher than normal rainfall	-							-
Miscellaneous expenses	EA expenses - timing of the payments (donations, communications etc)	(103,364)				(4,455)	(49,455)	(49,455)	(103,364)
Depreciation	Estimate of Savings from Asset Study	22,000						22,000	22,000
Water revenues	Millesrburg - Revenues	42,492				15,486	13,912	13,094	42,492
Sewer revenues	Millersburg - Revenues	39,065				14,237	12,790	12,038	39,065
Purchased water	Millersburg - Purchase water from Paris until connection	(27,000)				(9,000)	(9,000)	(9,000)	
Miscellaneous expenses	Millersburg - Expenses	(55,762)				(18,813)	(18,051)	(18,898)	(55,762)
Interest on long-term debt	Millersburg - Interest Expenses	(650)				(217)	(217)	(217)	(650)
Water revenues	Unrealized BD - Midway Revenues	(75,024)				(25,008)	(25,008)	(25,008)	(75,024)
Miscellaneous expenses	Unrealized BD - Midway Expenses	41,536				17,778	11,854	11,904	41,536
Interest on long-term debt	Unrealized BD - Midway Interest	463				158	182	123	463
Allowance for other funds used	Unrealized BD - Midway AFUDC	(14,084)				(4,082)	(4,693)	(5,309)	(14,084)
		-							-
Uncollectible Accounts Exp	Based on 3mth rolling of 1.08%, assumed 1.1% for remainder of 2014	(102,778)				(36,685)	(33,829)	(32,264)	(102,778)
		-							-
Miscellaneous expenses	Identified opportunities to meet the budget	79,500				15,000	15,000	49,500	79,500
		-							-
Contracted services	contract services with BD	(30,000)				(10,000)	(10,000)	(10,000)	(30,000)
General taxes	Property tax Vs based on new assesment	(109,347)				(36,449)	(36,449)	(36,449)	(109,347)
Service Company costs	Changes in Service Company fees per corporate	(98,644)	-	-	-	(32,881)	(32,881)	(32,881)	(98,644)

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Oct 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,613	7,751	(138)	(1.78)%	7,671	(58)	(0.76)%
Sewer revenues	2	42	30	12	39.14%	29	13	45.39%
Other operating revenues	3	175	143	32	22.71%	184	(8)	(4.54)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,830	7,924	(94)	(1.18)%	7,883	(53)	(0.68)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	24	17	(7)	(44.37)%	20	(4)	(20.37)%
Fuel and Power	7	317	318	1	0.26%	299	(18)	(6.10)%
Chemicals	8	174	102	(72)	(70.57)%	145	(29)	(19.85)%
Waste disposal	9	28	34	6	17.80%	25	(3)	(11.02)%
Total production costs		543	470	(73)	(15.42)%	489	(54)	(11.02)%
Salaries & Wages	10	579	632	53	8.39%	569	(10)	(1.77)%
Pensions	11	21	36	15	41.58%	63	42	66.72%
Group insurances	12	118	132	13	10.10%	141	22	15.84%
Other benefits	13	27	35	8	22.98%	32	5	16.44%
Total employee related		745	834	89	10.69%	804	59	7.38%
Service Company costs	14	682	777	96	12.32%	715	33	4.59%
Contracted services	15	88	68	(20)	(29.41)%	64	(24)	(37.60)%
Building maintenance and services	16	52	39	(13)	(33.54)%	37	(15)	(40.10)%
Telecommunication expenses	17	16	22	6	26.38%	21	5	25.17%
Postage printing and stationery	18	1	3	1	50.70%	3	2	54.08%
Office supplies & expenses	19	16	34	18	52.43%	13	(3)	(21.95)%
Advertising & marketing expenses	20	0	1	1	80.00%	4	4	95.33%
Employee related expense travel & entertainment	21	15	20	5	24.17%	13	(2)	(13.12)%
Miscellaneous expenses	22	130	80	(50)	(63.20)%	123	(8)	(6.32)%
Rents	23	8	3	(5)	(149.14)%	2	(6)	(295.91)%
Transportation	24	44	40	(4)	(10.20)%	38	(6)	(15.73)%
Operating supplies & services		371	309	(62)	(20.11)%	319	(53)	(16.48)%
Uncollectible Accounts Exp	25	49	48	(1)	(2.90)%	319	270	84.64%
Customer accounting other	26	92	84	(8)	(9.69)%	92	0	(0.49)%
Regulatory expense	27	20	20	0	(0.02)%	1	(19)	(3,151.02)%
Insurance other than group	28	49	56	7	12.13%	52	2	4.63%
Maintenance service & supplies	29	147	112	(35)	(31.70)%	107	(40)	(37.79)%
Total operation and maintenance		2,699	2,711	12	0.45%	2,898	198	6.84%
Depreciation	30	1,012	1,006	(6)	(0.60)%	963	(49)	(5.08)%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	153	145	(8)	(5.79)%	134	(20)	(14.61)%
Depreciation and Amortization		1,185	1,170	(15)	(1.26)%	1,115	(69)	(6.22)%
General taxes	33	480	442	(38)	(8.56)%	420	(60)	(14.20)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,364	4,323	(40)	(0.94)%	4,433	69	1.56%
Operating income (loss)		3,466	3,600	(134)	(3.73)%	3,450	16	0.46%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	3	3	0	8.92%	5	2	38.54%
Other Interest Expense	39	-	-			-		
Interest net		1,016	1,016	1	0.06%	1,007	(9)	(0.89)%
Allowance for other funds used during construction	40	30	21	10	46.54%	85	(55)	(64.40)%
Allowance for borrowed funds used during construction	41	14	10	4	43.00%	40	(26)	(65.16)%
Amortization of debt expense	42	8	7	0	(3.48)%	8	0	(0.73)%
Other Net	43	(4)	0	(4)		4	(8)	(205.31)%
Total other income (expenses)		(983)	(994)	10	1.03%	(886)	(97)	(10.97)%
Income (loss) before income taxes		2,483	2,607	(124)	(4.76)%	2,564	(81)	(3.17)%
Provision for income taxes	44	990	1,037	47	4.52%	1,031	40	3.92%
Income (loss) from continuing operations		1,492	1,569	(77)	(4.92)%	1,533	(41)	(2.67)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,492	1,569	(77)	(4.92)%	1,533	(41)	(2.67)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,492	1,569	(77)	(4.92)%	1,533	(41)	(2.67)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,492	1,569	(77)	(4.92)%	1,533	(41)	(2.67)%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 OCT
O&V Details

	2014 Original Plan - Net Income to common stockholders	15,678,793							
	YTD Variance - Net Income to common stockholders	10,683	N	H	H	H	H	H	
			7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	27,618					13,809	13,809	27,618
OPEB	Global - Corporate managed OPEB opportunity	17,199					8,600	8,600	17,199
Insurance other than group	Global - Premium opportunity per corporate guidance	12,410					6,205	6,205	12,410
Insurance other than group	Global - Retro vulnerability per corporate guidance	(34,301)						(34,301)	(34,301)
Water revenues	Rate Case Results - Water Revenue	81,953					20,974	60,978	81,953
Other operating revenues	Rate Case Results - Other Revenue	44,167					22,083	22,083	44,167
Chemicals	Chemicals costs lower than plan assumption	-							-
Waste disposal	Effeciency Savings	24,000					12,000	12,000	24,000
Purchased water	Purchase Water re-profile	5,636					2,818	2,818	5,636
Salaries & Wages	Vacancies over plan	10,000					5,000	5,000	10,000
Contracted services	Reclass Non Productive labor to Capital	20,000					20,000	-	20,000
Building maintenance and servi	Plan too low for electricity/gas/security	(10,000)					(5,000)	(5,000)	(10,000)
		-							-
Miscellaneous expenses	EA expenses - timing of the payments (donations, communications etc)	(50,000)					(25,000)	(25,000)	(50,000)
Depreciation	Estimate of Savings from Asset Study	100,000					50,000	50,000	100,000
Water revenues	Millersburg - Revenues	27,006					13,912	13,094	27,006
Sewer revenues	Millersburg - Revenues	24,828					12,790	12,038	24,828
Purchased water	Millersburg - Purchase water from Paris until connection	(18,000)					(9,000)	(9,000)	
Miscellaneous expenses	Millersburg - Expenses	(36,949)					(18,051)	(18,898)	(36,949)
Interest on long-term debt	Millersburg - Interest Expenses	(433)					(217)	(217)	(433)
Water revenues	Unrealized BD - Midway Revenues	(50,016)					(25,008)	(25,008)	(50,016)
Miscellaneous expenses	Unrealized BD - Midway Expenses	23,758					11,854	11,904	23,758
Interest on long-term debt	Unrealized BD - Midway Interest	305					182	123	305
Allowance for other funds used	Unrealized BD - Midway AFUDC	(10,002)					(4,693)	(5,309)	(10,002)
		-							-
		-							-
Uncollectible Accounts Exp	Based on 3mth rolling of 1.08%, assumed 1.1% for remainder of 2014	(66,093)					(33,829)	(32,264)	(66,093)
Miscellaneous expenses	Identified opportunities to meet the budget	64,500					15,000	49,500	64,500
Water revenues	UK leak adjustment	(30,000)						(30,000)	(30,000)
General taxes	Property tax Vs based on new assesment	(72,898)					(36,449)	(36,449)	(72,898)
									-
Service Company costs	Changes in Service Company fees per corporate	(164,280)	-	-	-	-	(82,140)	(82,140)	(164,280)

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Nov 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,691	6,956	(265)	(3.81)%	6,659	32	0.48%
Sewer revenues	2	36	23	13	57.30%	26	10	37.63%
Other operating revenues	3	161	139	22	15.99%	172	(11)	(6.57)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		6,888	7,118	(230)	(3.23)%	6,858	30	0.44%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	7	18	10	59.63%	26	19	72.67%
Fuel and Power	7	252	277	25	8.91%	293	41	13.95%
Chemicals	8	97	108	11	9.94%	150	53	35.51%
Waste disposal	9	24	31	6	20.16%	50	26	51.06%
Total production costs		381	433	52	12.02%	520	139	26.69%
Salaries & Wages	10	512	569	57	10.07%	541	29	5.33%
Pensions	11	21	36	15	41.98%	67	46	69.10%
Group insurances	12	109	132	22	16.80%	138	28	20.59%
Other benefits	13	11	29	18	60.51%	19	7	39.18%
Total employee related		653	765	112	14.63%	764	111	14.51%
Service Company costs	14	715	721	6	0.85%	728	14	1.89%
Contracted services	15	12	57	45	79.04%	63	51	80.84%
Building maintenance and services	16	20	39	19	48.87%	32	12	36.83%
Telecommunication expenses	17	18	22	4	18.42%	25	7	29.36%
Postage printing and stationery	18	2	2	0	13.00%	1	(1)	(95.95)%
Office supplies & expenses	19	(6)	32	37	117.65%	19	24	130.03%
Advertising & marketing expenses	20	-	1	1	100.00%	-		
Employee related expense travel & entertainment	21	16	9	(7)	(80.75)%	7	(8)	(113.32)%
Miscellaneous expenses	22	46	74	28	38.00%	46	0	(0.04)%
Rents	23	4	3	0	(8.72)%	2	(1)	(50.16)%
Transportation	24	70	40	(30)	(75.60)%	31	(39)	(125.57)%
Operating supplies & services		181	278	97	35.02%	225	44	19.73%
Uncollectible Accounts Exp	25	120	43	(77)	(180.22)%	197	77	39.05%
Customer accounting other	26	92	89	(2)	(2.72)%	87	(4)	(5.02)%
Regulatory expense	27	20	20	0	(0.02)%	77	57	74.07%
Insurance other than group	28	49	56	7	12.27%	53	3	6.33%
Maintenance service & supplies	29	92	134	43	31.70%	164	73	44.28%
Total operation and maintenance		2,302	2,540	237	9.35%	2,816	514	18.24%
Depreciation	30	969	1,007	38	3.78%	966	(3)	(0.29)%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	149	145	(4)	(2.80)%	135	(15)	(10.88)%
Depreciation and Amortization		1,138	1,171	34	2.88%	1,119	(18)	(1.64)%
General taxes	33	478	437	(41)	(9.46)%	411	(67)	(16.36)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		3,918	4,148	230	5.54%	4,347	428	9.85%
Operating income (loss)		2,970	2,970	0	0.00%	2,511	458	18.26%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	3	2	(1)	(70.52)%	4	0	9.96%
Other Interest Expense	39	-	-			0	0	100.00%
Interest net		1,016	1,015	(1)	(0.10)%	1,006	(10)	(1.00)%
Allowance for other funds used during construction	40	34	23	11	45.20%	103	(69)	(67.03)%
Allowance for borrowed funds used during construction	41	16	11	5	41.65%	47	(32)	(67.04)%
Amortization of debt expense	42	8	8	0	(0.19)%	8	0	0.00%
Other Net	43	(19)	0	(19)		(21)	2	10.30%
Total other income (expenses)		(993)	(988)	(5)	(0.52)%	(885)	(109)	(12.29)%
Income (loss) before income taxes		1,977	1,982	(5)	(0.27)%	1,627	350	21.50%
Provision for income taxes	44	783	772	(11)	(1.45)%	654	(129)	(19.71)%
Income (loss) from continuing operations		1,194	1,210	(16)	(1.36)%	973	221	22.71%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,194	1,210	(16)	(1.36)%	973	221	22.71%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,194	1,210	(16)	(1.36)%	973	221	22.71%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,194	1,210	(16)	(1.36)%	973	221	22.71%

E12_Kentucky American
P&L - 2014 Landing Zone
FY14 NOV
O&V Details

			N	H	H	H	H	H	
	2014 Original Plan - Net Income to common stockholders	15,678,793							
	YTD Variance - Net Income to common stockholders	(5,762)							
			7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Pensions	Global - Corporate managed pension opportunity	13,809						13,809	13,809
OPEB	Global - Corporate managed OPEB opportunity	8,600						8,600	8,600
Insurance other than group	Global - Premium opportunity per corporate guidance	6,205						6,205	6,205
Insurance other than group	Global - Retro vulnerability per corporate guidance	(34,301)						(34,301)	(34,301)
		-							-
Water revenues	Rate Case Results - Water Revenue	60,978						60,978	60,978
Other operating revenues	Rate Case Results - Other Revenue	22,083						22,083	22,083
		-							-
Purchased water	Purchase Water re-profile	11,000						11,000	11,000
Waste disposal	Effeciency Savings	12,000						12,000	12,000
Salaries & Wages	Vacancies over plan	13,000						13,000	13,000
Salaries & Wages	Group Insurance - vacancies	10,000						10,000	10,000
Office supplies & expenses	Runrate savings to get to plan	20,000						20,000	20,000
Uncollectible Accounts Exp	Based on 6mth rolling of 1.1%, assumed 1.1% for remainder of 2014	(40,000)						(40,000)	(40,000)
Maintenance service & supplies	Savings to get to plan (run rate and vs last year)	20,000						20,000	20,000
Depreciation	Estimate of Savings from Asset Study/offset by depr run rate	40,000						40,000	40,000
General taxes	Property tax Vs based on new assesment	(36,449)						(36,449)	(36,449)
Allowance for other funds used	Runrate	15,000						15,000	15,000
Salaries & Wages	Other Benefits - Savings to meet plan	40,000						40,000	40,000
Transportation	Correction of November invoice should have been capital	20,000						20,000	20,000
Water revenues	UK Leak Adjustment	(25,000)						(25,000)	(25,000)
Miscellaneous expenses	EA Savings to meet plan	15,000						15,000	15,000
		-							-
Water revenues	Millersburg - Revenues	13,094						13,094	13,094
Sewer revenues	Millersburg - Revenues	12,038						12,038	12,038
Purchased water	Millersburg - Purchase water from Paris until connection	(9,000)						(9,000)	(9,000)
Miscellaneous expenses	Millersburg - Expenses	-						-	-
Interest on long-term debt	Millersburg - Interest Expenses	(217)						(217)	(217)
Water revenues	Unrealized BD - Midway Revenues	(25,008)						(25,008)	(25,008)
Miscellaneous expenses	Unrealized BD - Midway Expenses	11,904						11,904	11,904
Interest on long-term debt	Unrealized BD - Midway Interest	123						123	123
Allowance for other funds used	Unrealized BD - Midway AFUDC	(5,309)						(5,309)	(5,309)

Income Statement - Month To Date
E12_Kentucky American
Dec 2014
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,546	6,542	3	0.05%	6,462	83	1.29%
Sewer revenues	2	35	23	12	54.32%	24	12	48.20%
Other operating revenues	3	185	134	51	37.86%	156	29	18.46%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		6,766	6,700	67	0.99%	6,642	124	1.86%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	29	29	(1)	(2.04)%	17	(12)	(69.05)%
Fuel and Power	7	265	272	7	2.42%	272	7	2.51%
Chemicals	8	107	102	(5)	(4.51)%	156	48	31.18%
Waste disposal	9	28	36	8	21.62%	26	(3)	(10.43)%
Total production costs		430	439	9	2.09%	471	41	8.66%
Salaries & Wages	10	645	652	7	1.07%	490	(154)	(31.51)%
Pensions	11	21	36	15	40.73%	50	29	57.76%
Group insurances	12	123	132	9	6.71%	87	(35)	(40.27)%
Other benefits	13	62	81	18	22.53%	22	(40)	(182.04)%
Total employee related		851	899	49	5.39%	650	(201)	(30.93)%
Service Company costs	14	849	777	(72)	(9.25)%	750	(99)	(13.18)%
Contracted services	15	15	57	42	73.62%	68	53	78.05%
Building maintenance and services	16	59	39	(20)	(51.29)%	51	(8)	(15.90)%
Telecommunication expenses	17	21	22	1	2.57%	26	5	19.64%
Postage printing and stationery	18	3	2	0	(14.66)%	1	(2)	(164.77)%
Office supplies & expenses	19	16	32	16	49.86%	12	(4)	(35.82)%
Advertising & marketing expenses	20	0	1	1	103.57%	1	1	105.99%
Employee related expense travel & entertainment	21	(30)	5	36	667.81%	12	42	348.72%
Miscellaneous expenses	22	(16)	83	98	119.33%	154	170	110.38%
Rents	23	2	3	1	35.35%	3	0	16.01%
Transportation	24	8	40	32	80.53%	86	79	91.06%
Operating supplies & services		77	284	206	72.68%	413	336	81.27%
Uncollectible Accounts Exp	25	46	40	(6)	(14.70)%	(161)	(207)	(128.74)%
Customer accounting other	26	82	89	7	7.97%	89	7	7.72%
Regulatory expense	27	20	20	0	(0.02)%	23	3	11.78%
Insurance other than group	28	104	56	(48)	(85.10)%	69	(35)	(50.41)%
Maintenance service & supplies	29	123	123	0	(0.28)%	146	23	16.00%
Total operation and maintenance		2,583	2,727	145	5.31%	2,451	(132)	(5.38)%
Depreciation	30	970	1,008	38	3.73%	939	(32)	(3.39)%
Amortization	31	20	19	0	(1.52)%	19	(1)	(5.00)%
Removal costs	32	149	145	(4)	(2.90)%	130	(19)	(14.85)%
Depreciation and Amortization		1,139	1,173	33	2.82%	1,087	(52)	(4.79)%
General taxes	33	483	443	(40)	(9.07)%	528	45	8.58%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,205	4,343	138	3.17%	4,066	(139)	(3.41)%
Operating income (loss)		2,561	2,357	204	8.67%	2,576	(15)	(0.58)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.03%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	6	5	(1)	(28.81)%	6	(1)	(11.67)%
Other Interest Expense	39	-	-			0	0	100.00%
Interest net		1,019	1,018	(1)	(0.11)%	1,008	(11)	(1.13)%
Allowance for other funds used during construction	40	31	19	12	67.10%	117	(86)	(73.51)%
Allowance for borrowed funds used during construction	41	14	9	5	63.07%	43	(29)	(67.18)%
Amortization of debt expense	42	8	8	0	(0.19)%	8	0	1.58%
Other Net	43	(21)	0	(21)		(17)	(3)	(18.81)%
Total other income (expenses)		(1,002)	(998)	(4)	(0.37)%	(872)	(130)	(14.87)%
Income (loss) before income taxes		1,559	1,359	201	14.77%	1,704	(145)	(8.49)%
Provision for income taxes	44	665	551	(114)	(20.71)%	571	(94)	(16.54)%
Income (loss) from continuing operations		894	807	86	10.71%	1,133	(239)	(21.10)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		894	807	86	10.71%	1,133	(239)	(21.10)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		894	807	86	10.71%	1,133	(239)	(21.10)%
Common dividends	47	4,357	4,429	71	1.61%	3,652	(705)	(19.31)%
Current Year Retained Earnings		(3,463)	(3,621)	158	4.35%	(2,519)	(944)	(37.49)%

AMERICAN WATER

KENTUCKY-AMERICAN COMPANY

FRP

December 2014

KY

Table of Contents

Financial Review Package (quarterly)

KY

Monthly Financial Reviews

✓ Detailed Financial Statements in accordance with GAAP are included on a consolidated basis and on a legal entity/state (Regulated) and Line of Business (AWE) basis
✓ All budget data presented is accurate.
✓ All key variances are identified and explained in sufficient detailed information in order to keep follow-up communications to a minimum.
✓ Variance analysis and commentary reflect financial results consistent with operation results.
✓ All known items for the current period have been reflected in financial discussions.
✓ System generated revenue variance summary is thoroughly and accurately prepared. (Regulated entities only)
✓ Package includes a Management Judgment report. During the 1st and 2nd quarter of a calendar year, such report includes an item that details all known material changes since the submission of the last disclosure package or an item that states that there are no known material changes to the latest submitted disclosure package.
✓ For the 1st and 2nd quarters of a calendar year, the Schedules of Environmental Costs and O&M Commitments are included.
✓ Financial Review Package is submitted to Corporate Finance by due date as outlined in the Reporting Calendar.

I have reviewed the contents of the Financial Review Package, and to the best of my knowledge and belief, all information presented in these reports is accurate.

Finance Manager or Vice President **(Signature)**

1-13-2015
(Date)

AMERICAN WATER

Income Statement - Quarter To Date
E12_Kentucky American
DECQTD 2014
($ In Thousands)

		QTD Actuals	QTD Budget	Variance Favorable (Unfavorable)	% Variance	QTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	20,849	21,249	(400)	(1.88)%	20,792	57	0.27%
Sewer revenues	2	113	76	37	49.23%	79	34	43.66%
Other operating revenues	3	521	416	105	25.35%	512	9	1.79%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		21,484	21,741	(257)	(1.18)%	21,383	101	0.47%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	60	63	3	4.10%	63	3	4.64%
Fuel and Power	7	835	867	32	3.70%	864	30	3.42%
Chemicals	8	378	312	(66)	(21.13)%	451	73	16.18%
Waste disposal	9	81	101	20	19.88%	101	20	19.96%
Total production costs		1,354	1,342	(11)	(0.84)%	1,479	126	8.49%
Salaries & Wages	10	1,736	1,853	117	6.33%	1,600	(136)	(8.48)%
Pensions	11	63	107	44	41.43%	180	117	65.11%
Group insurances	12	350	395	44	11.20%	366	15	4.21%
Other benefits	13	101	144	44	30.27%	73	(28)	(37.88)%
Total employee related		2,250	2,499	250	9.99%	2,219	(31)	(1.38)%
Service Company costs	14	2,245	2,275	30	1.32%	2,193	(52)	(2.38)%
Contracted services	15	115	182	67	36.74%	195	80	40.88%
Building maintenance and services	16	131	117	(14)	(11.99)%	120	(11)	(9.51)%
Telecommunication expenses	17	55	65	10	15.79%	72	18	24.61%
Postage printing and stationery	18	6	7	1	17.09%	5	(1)	(25.33)%
Office supplies & expenses	19	27	97	71	72.80%	44	17	39.20%
Advertising & marketing expenses	20	0	3	3	94.02%	5	5	96.63%
Employee related expense travel & entertainment	21	1	34	33	98.41%	33	32	98.35%
Miscellaneous expenses	22	160	236	76	32.23%	322	162	50.28%
Rents	23	14	10	(4)	(40.84)%	7	(7)	(99.01)%
Transportation	24	121	119	(2)	(1.76)%	155	34	21.90%
Operating supplies & services		629	870	241	27.72%	957	328	34.26%
Uncollectible Accounts Exp	25	215	131	(84)	(64.58)%	356	140	39.50%
Customer accounting other	26	266	263	(3)	(1.32)%	268	2	0.76%
Regulatory expense	27	60	60	0	(0.02)%	101	41	40.25%
Insurance other than group	28	203	169	(34)	(20.23)%	174	(29)	(16.79)%
Maintenance service & supplies	29	362	369	7	1.83%	418	56	13.37%
Total operation and maintenance		7,584	7,979	394	4.94%	8,164	580	7.11%
Depreciation	30	2,951	3,021	70	2.31%	2,868	(84)	(2.91)%
Amortization	31	59	58	(1)	(1.52)%	56	(3)	(5.00)%
Removal costs	32	452	435	(17)	(3.83)%	399	(54)	(13.43)%
Depreciation and Amortization		3,462	3,514	52	1.48%	3,322	(140)	(4.21)%
General taxes	33	1,441	1,322	(119)	(9.03)%	1,359	(82)	(6.00)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		12,487	12,814	327	2.55%	12,846	359	2.79%
Operating income (loss)		8,997	8,927	70	0.78%	8,537	459	5.38%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	3,038	3,039	1	0.03%	3,006	(33)	(1.09)%
Interest on Short-Term Bank Debt	38	13	10	(2)	(24.13)%	14	2	11.56%
Other Interest Expense	39	-	-			1	1	100.00%
Interest net		3,051	3,049	(2)	(0.05)%	3,021	(30)	(1.01)%
Allowance for other funds used during construction	40	95	63	33	52.14%	305	(210)	(68.79)%
Allowance for borrowed funds used during construction	41	44	29	14	48.45%	130	(87)	(66.51)%
Amortization of debt expense	42	23	22	0	(1.26)%	23	0	0.29%
Other Net	43	(44)	0	(44)		(35)	(9)	(24.78)%
Total other income (expenses)		(2,979)	(2,980)	1	0.04%	(2,643)	(336)	(12.70)%
Income (loss) before income taxes		6,018	5,947	71	1.20%	5,894	124	2.10%
Provision for income taxes	44	2,439	2,360	(78)	(3.32)%	2,256	(183)	(8.11)%
Income (loss) from continuing operations		3,580	3,587	(7)	(0.20)%	3,639	(59)	(1.62)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		3,580	3,587	(7)	(0.20)%	3,639	(59)	(1.62)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		3,580	3,587	(7)	(0.20)%	3,639	(59)	(1.62)%
Common dividends	47	4,357	4,429	71	1.61%	3,652	(705)	(19.31)%
Current Year Retained Earnings		(778)	(842)	64	7.61%	(13)	(764)	(5,780.26)%

QTD INCOME STATEMENT

SCENARIO: QTD ACT vs. QTD PLAN

Operating Revenues:

Line 1 – Water revenues ($0.400): Unfavorable variance $0.4m driven by lower revenues Commercial and OPA classes, partially offset by slightly favorable revenues from residential & other classes combined. The rate increase in the plan was on both fixed and volumetric sides, but actual rate granted only has the fixed charge increase. The total negative rate impact for commercial and OPA were $0.160m and $0.092m respectively, while the sales in term of gallons were 2.5% higher for commercial and 6.7% under plan for OPA.

Operating Expenses:

Line 10 – Salary & Wages $0.131: Favorable variance $0.131m driven by lower regular salaries $0.171m and AIP & other compensation $0.019m, partially offset by higher OT $0.060m due to lower headcount. The favorable regular salaries were mainly due to lower overall headcount (Act. 126 vs. PL 130) & higher capitalization rate (Act 19.7% vs. PL 17.7%).

Provision for Income Taxes

Line 44 – Provision for income taxes variance explained at corporate.

SCENARIO: QTD ACT vs. QTD PRIOR YEAR

Operating Revenues:

No significant variance to explain.

Operating Expenses:

Line 10 – Salary & Wages ($0.122): Unfavorable variance $0.122m mainly driven by annual employee merit increase $0.101m while maintaining the similar total headcount and capitalization rate, partially offset by favorable AIP & other compensation $0.021m.

Line 11 – Pensions $0.117: Favorable variance $0.117m driven by increased discount rate and favorable asset returns in 2013

Line 22 – Miscellaneous expenses $0.162: Favorable variance $0.162m driven by timing of the charitable donations for External Affairs $0.120m and Inventory Physical Write-off $40K in Dec 2013.

Line 40 – Allowance for other funds used during construction ($0.210): Unfavorable variance driven primarily by lower AFUDC eligible assets balance in 2014 comparing with the same time year ago (2013 CWIP contained the Northern Connection IP which is now in service).

Provision for Income Taxes

Line 44 – Provision for Income Taxes variance explained at corporate.

AMERICAN WATER

Income Statement - Year To Date
E12_Kentucky American
DECYTD 2014
($ In Thousands)

		YTD Actuals	YTD Budget	Variance Favorable (Unfavorable)	% Variance	YTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	86,369	87,713	(1,344)	(1.53)%	81,509	4,860	5.96%
Sewer revenues	2	346	300	46	15.49%	300	46	15.50%
Other operating revenues	3	2,065	1,746	319	18.27%	1,838	227	12.38%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		88,781	89,759	(978)	(1.09)%	83,647	5,134	6.14%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	177	258	81	31.27%	246	68	27.85%
Fuel and Power	7	3,814	3,762	(52)	(1.38)%	3,695	(119)	(3.22)%
Chemicals	8	1,656	1,616	(39)	(2.43)%	1,749	94	5.37%
Waste disposal	9	278	400	122	30.48%	383	105	27.39%
Total production costs		5,925	6,037	112	1.85%	6,074	148	2.44%
Salaries & Wages	10	6,931	7,159	228	3.19%	6,578	(353)	(5.37)%
Pensions	11	246	429	183	42.66%	819	573	69.95%
Group insurances	12	1,431	1,578	148	9.36%	1,724	293	17.00%
Other benefits	13	369	425	56	13.22%	323	(46)	(14.17)%
Total employee related		8,976	9,592	615	6.42%	9,444	467	4.95%
Service Company costs	14	8,776	9,095	319	3.51%	9,164	388	4.23%
Contracted services	15	762	774	12	1.59%	839	77	9.17%
Building maintenance and services	16	646	468	(178)	(38.12)%	455	(191)	(41.94)%
Telecommunication expenses	17	268	259	(9)	(3.64)%	279	11	4.03%
Postage printing and stationery	18	19	29	10	33.77%	24	4	17.71%
Office supplies & expenses	19	164	386	222	57.61%	188	25	13.07%
Advertising & marketing expenses	20	5	11	6	56.39%	6	2	25.43%
Employee related expense travel & entertainment	21	137	178	41	22.93%	89	(48)	(53.63)%
Miscellaneous expenses	22	904	1,091	187	17.18%	1,192	289	24.22%
Rents	23	32	39	7	18.04%	36	4	11.64%
Transportation	24	502	477	(25)	(5.17)%	575	73	12.71%
Operating supplies & services		3,438	3,712	274	7.37%	3,684	246	6.68%
Uncollectible Accounts Exp	25	1,042	541	(501)	(92.57)%	1,092	50	4.60%
Customer accounting other	26	1,051	1,057	6	0.54%	1,048	(3)	(0.29)%
Regulatory expense	27	250	241	(9)	(3.81)%	260	11	4.04%
Insurance other than group	28	739	676	(63)	(9.35)%	677	(61)	(9.06)%
Maintenance service & supplies	29	1,997	1,549	(448)	(28.92)%	1,614	(383)	(23.75)%
Total operation and maintenance		32,195	32,499	304	0.94%	33,057	863	2.61%
Depreciation	30	11,917	11,974	57	0.47%	11,566	(351)	(3.03)%
Amortization	31	234	231	(4)	(1.52)%	223	(11)	(5.00)%
Removal costs	32	1,780	1,725	(55)	(3.19)%	1,599	(181)	(11.35)%
Depreciation and Amortization		13,932	13,930	(2)	(0.01)%	13,388	(544)	(4.06)%
General taxes	33	5,762	5,305	(456)	(8.60)%	5,058	(704)	(13.91)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		51,888	51,734	(154)	(0.30)%	51,503	(385)	(0.75)%
Operating income (loss)		36,893	38,025	(1,132)	(2.98)%	32,143	4,749	14.77%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	12,132	12,136	4	0.03%	11,905	(227)	(1.90)%
Interest on Short-Term Bank Debt	38	51	49	(2)	(5.06)%	46	(5)	(9.91)%
Other Interest Expense	39	0	-	0		1	1	99.80%
Interest net		12,183	12,184	1	0.01%	11,952	(231)	(1.93)%
Allowance for other funds used during construction	40	317	148	169	114.62%	778	(461)	(59.27)%
Allowance for borrowed funds used during construction	41	145	69	76	110.03%	363	(218)	(59.97)%
Amortization of debt expense	42	91	88	(2)	(2.63)%	89	(2)	(2.00)%
Other Net	43	(72)	(6)	(67)	(1,217.58)%	(81)	8	10.00%
Total other income (expenses)		(11,884)	(12,061)	177	1.47%	(10,980)	(904)	(8.23)%
Income (loss) before income taxes		25,009	25,964	(955)	(3.68)%	21,163	3,846	18.17%
Provision for income taxes	44	9,249	10,285	1,036	10.07%	8,364	(886)	(10.59)%
Income (loss) from continuing operations		15,760	15,679	81	0.51%	12,800	2,960	23.12%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		15,760	15,679	81	0.51%	12,800	2,960	23.12%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		15,760	15,679	81	0.51%	12,800	2,960	23.12%
Common dividends	47	11,849	11,562	(287)	(2.49)%	8,291	(3,558)	(42.91)%
Current Year Retained Earnings		3,910	4,117	(207)	(5.02)%	4,508	(598)	(13.27)%

YTD INCOMESTATEMENT

SCENARIO: YTD ACT vs. YTD PLAN

Operating Revenues:

Line 1 – Water Revenue $1.344: Unfavorable variance $1.334m primarily driven by lower sales $0.911m and lower rate increase $0.541m, partially offset by higher fire services $0.122m and organic growth $0.024m.The lower sales mainly driven by wet/cool weather condition within the service area. The rate increase in the plan was on both fixed and volumetric sides, but actual rate granted only has the fixed charge increase.

Line 3 – Other operating revenue $0.319: Favorable variance $0.319m driven by higher late fees $0.206m and application/initiation fee $0.167m, partially offset by misc other combined.

Operating Expenses:

Line 9 – Waste disposal $0.122: Favorable variance $0.122m mainly driven by a process change thus less chemicals were used in the treatment process.

Line 10 – Salaries & Wages $0.242: Favorable variance $0.242m driven by favorable regular salaries $0.442m due to lower overall headcount (Act 126 vs. PL 130) and slightly higher capitalization rate (Act 17.9% vs. PL 17.7%), partially offset by higher OT $0.274m as a result of lower headcount.

Line 11 – Pensions $0.183: Favorable variance $0.183m driven by increased discount rate and favorable asset returns in 2013.

Line 12 – Group Insurances $0.148: Favorable variance $0.148m driven by overall lower than expected group insurance premiums and lower overall headcount.

Line 14 – Service Company Costs $0.319: Favorable variance $0.319m handled by Corp level.

Line 16 – Building maintenance and services ($0.178): Unfavorable variances $0.178m driven by ground keeping $0.194m mainly due to the expenses were budgeted under contract services for landscaping at the main office building, multiple production facilities and tank sites, the unfavorable variance partially offset by favorable other expenses combined $0.016m. The true overage on ground keeping was about $0.04m due to additional work in 2014.

Line 19 – Office Supplies & expenses $0.222: Favorable variance $0.222m driven by actual software license fees were booked under maintenance expenses but was budgeted here $0.184m, the favorable variance also includes savings from multiple areas 0.037m (uniforms, office & admin supplies, credit lines & forms).

Line 22 – Miscellaneous expenses $0.187: Favorable variance $0.187m driven by lower EA expenses $0.098m (donations) and other combined $0.089 (lab supplies $0.039m, materials & supplies $0.026m and higher discount available $0.024m).

Line 24 – Uncollectible Accounts Exp ($0.501): Unfavorable variance $0.501m driven by timing of write offs and higher bad debt reserve as a result of SAP implementation since May 2013. 12 month rolling uncollectible expenses was 1.27% (budget was 0.62%).

Line 29 – Maintenance service & supplies ($0.448): Unfavorable variance $0.448m driven by contract services $0.585m related to repairs at different plants(intake pumps repairs, motor services), partially offset by material & supplies $0.085m, backfill/paving $0.022m and lower amortized expenses on deferred maintenance $0.030m.

Line 33 – General taxes ($0.456): Unfavorable variance $0.456m driven by higher property taxes $0.501m, utility reg assessment $0.008m, offset by favorable payroll taxes $0.053m due to lower headcount (Act 126 vs. PL 130).

Line 41 – Allowance for borrowed funds used during construction $0.169: Favorable variance driven by higher AFUDC eligible asset balance mainly due to Northern

Connection project delay till earlier part of 2014. The favorable AFUDC was not expected in the budget.

Provision for Income Taxes

Line 44 – Provision of Income Taxes variance explained at corporate.

SCENARIO: YTD ACT vs. YTD PRIOR YEAR

Operating Revenues:

Line 1 – Water Revenues $4.860: Favorable variance $4.860m driven by rate increase $3.893m, fire services $0.474m, slightly higher sales $0.387m, organic growth $0.305m and revenues $0.077m from Millersburg acquisition. The interim rate increase was put into effect on July 27 2013. The actual rate increase was granted on October 25, 2013.

Line 3 – Other Operating Revenues $0.227: Favorable variance driven by reconnection fee $0.147m, late fees $0.081m and Application/Initiation Fee $0.039, partially offset by misc other combined.

Operating Expenses:

Line 10 – Salaries & wages ($0.340): Unfavorable variance $0.340m driven by annual merit increase while the headcount and capitalization rate were relatively flat YOY.

Line 11 – Pensions $0.573: Favorable variance $0.573m driven by increased discount rate and favorable asset returns in 2013.

Line 12 – Group Insurances $0.293: Favorable variance $0.293m mainly driven by savings on premium while the overall headcount stayed the same YOY.

Line 14 – Service Company costs $0.388: Favorable variance $0.388m explained at the Corp level.

Line 16 – Building maintenance and services ($0.191): Unfavorable variance $0.191m driven by ground keeping $0.213m, partially offset by savings from janitorial $0.014m and trash removal $0.011m. The group keeping expenses in 2013 were booked under contract services, the true unfavorable variance on ground keeping was about $0.04m for the year.

Line 22 – Miscellaneous expenses $0.289: Favorable variance $0.289m driven by inventory physical scrap write off $0.112 occurred in 2013, lower EA expenses $0.052m (charitable donations, etc.) other $0.125m (LOP Depr Amort reclass $0.072 booked in 2013 and vertex amortization in 2013 $0.050m).

Line 29 – Maintenance service & supplies $(0.383): Unfavorable variance driven by contract services expenses related to repairs at different plants (intake pumps repairs, motor services) $0.439m, paving/backfill $0.100m unfavorable and higher amortization of deferred tank painting expenses $0.020, The unfavorable variance partially offset by lower expenses in material & supplies $0.176m.

Line 30 – Depreciation ($0.351): Unfavorable variance $0.351m driven by higher UPIS balance YOY as additional assets are now in service thus higher depreciation expenses.

Line 32 – Removal costs ($0.181): Unfavorable variance $0.181m driven by removal cost related to net negative salvage $0.069m and removal costs on CIAC $0.112m.

Line 33 – General taxes ($0.704): Unfavorable variance $0.704m driven by higher property taxes $0.698 due to higher property assessment projection by the state and higher than expected utility reg assessment & other $0.006m.

Line 37 – Interest on long-term debt ($0.227): Unfavorable variance $0.227m driven by LTD issuance $8.0M in May 2013.

Line 41 – Allowance for other funds used during construction ($0.461): Unfavorable variance $0.461m driven by lower allowance AFUDC eligible assets in 2014.

Line 42 – Allowance for borrowed funds used during construction ($0.218): Unfavorable variance $0.218m driven by lower allowance AFUDC eligible assets in 2014.

Provision for Income Taxes

Line 44 – Provision for Income taxes variance explained at corporate.

Supplementary Tables and Discussion
E12_Kentucky American
Dec 2014

AWFRP 2.0 - Result of Operations - Revenue Analysis

Revenue Variance Summary ($ in Thousands)

	Budget			Prior Year		
	MTD	QTD	YTD	MTD	QTD	YTD
Budget / Prior Year	6,700	21,741	89,759	6,642	21,383	83,647
Rates	54	(8)	(541)	-	-	3,893
DSIC	-	-	-	-	-	-
Surcharges	-	-	-	-	-	-
Balancing accounts	-	-	-	-	-	-
Water acuisitions	(16)	(53)	(43)	9	26	36
Sewer acquisitions	9	29	40	9	29	40
Other	-	-	(413)	-	-	140
Fire	(5)	40	123	64	100	475
Organic growth	2	6	24	50	127	305
Impact of weather	-	-	(1,126)	-	-	(951)
Other Demand/Consumption	(32)	(390)	628	(39)	(196)	931
Sewer	3	8	6	2	5	7
Other revenue variance	51	110	324	29	9	258
Actual revenues	6,766	21,484	88,781	6,766	21,484	88,781
Total variance	67	(257)	(978)	124	101	5,134

Income Statement - Month To Date
E12_Kentucky American
Jan 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,848	6,756	92	1.37%	7,044	(196)	(2.78)%
Sewer revenues	2	39	44	(5)	(11.11)%	31	8	26.66%
Other operating revenues	3	189	146	43	29.78%	77	112	145.45%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,076	6,946	131	1.88%	7,152	(76)	(1.06)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	15	25	10	39.38%	45	30	65.74%
Fuel and Power	7	285	285	0	(0.02)%	316	30	9.56%
Chemicals	8	115	116	1	0.91%	140	26	18.36%
Waste disposal	9	24	27	3	11.87%	23	(1)	(3.94)%
Total production costs		439	453	14	3.13%	524	85	16.18%
Salaries & Wages	10	612	611	0	(0.07)%	752	140	18.61%
Pensions	11	59	30	(29)	(95.72)%	20	(39)	(190.38)%
Group insurances	12	151	134	(17)	(12.57)%	134	(17)	(13.07)%
Other benefits	13	40	34	(7)	(20.19)%	36	(5)	(13.68)%
Total employee related		862	809	(53)	(6.55)%	941	79	8.37%
Service Company costs	14	750	685	(65)	(9.49)%	754	4	0.53%
Contracted services	15	39	53	14	26.71%	59	20	33.74%
Building maintenance and services	16	55	48	(7)	(14.15)%	56	1	2.30%
Telecommunication expenses	17	18	23	5	22.35%	24	6	25.88%
Postage printing and stationery	18	1	2	0	24.95%	2	1	43.19%
Office supplies & expenses	19	16	17	1	7.42%	20	5	23.19%
Advertising & marketing expenses	20	-	1	1	100.00%	-		
Employee related expense travel & entertainment	21	14	6	(8)	(132.82)%	11	(3)	(28.04)%
Miscellaneous expenses	22	203	179	(24)	(13.25)%	64	(138)	(215.15)%
Rents	23	2	2	0	17.88%	3	1	22.06%
Transportation	24	33	34	1	2.00%	34	1	1.81%
Operating supplies & services		381	365	(15)	(4.22)%	274	(107)	(39.23)%
Uncollectible Accounts Exp	25	135	74	(60)	(81.26)%	167	32	19.16%
Customer accounting other	26	100	86	(14)	(16.29)%	91	(9)	(9.49)%
Regulatory expense	27	20	20	0	0.00%	30	10	33.80%
Insurance other than group	28	52	56	5	8.45%	50	(2)	(3.56)%
Maintenance service & supplies	29	164	120	(44)	(36.52)%	318	154	48.44%
Total operation and maintenance		2,902	2,669	(233)	(8.71)%	3,148	246	7.81%
Depreciation	30	994	1,007	14	1.35%	976	(18)	(1.82)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.67%	135	(16)	(12.02)%
Depreciation and Amortization		1,165	1,182	17	1.47%	1,130	(34)	(3.03)%
General taxes	33	540	486	(55)	(11.29)%	471	(69)	(14.70)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,607	4,337	(270)	(6.23)%	4,749	142	3.00%
Operating income (loss)		2,470	2,609	(139)	(5.34)%	2,403	67	2.77%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,002	(11)	(1.09)%
Interest on Short-Term Bank Debt	38	7	2	(5)	(282.69)%	6	(1)	(24.43)%
Other Interest Expense	39	1	-	(1)		-	(1)	
Interest net		1,021	1,015	(6)	(0.59)%	1,008	(13)	(1.28)%
Allowance for other funds used during construction	40	33	17	16	93.79%	72	(39)	(53.60)%
Allowance for borrowed funds used during construction	41	15	8	7	88.44%	33	(18)	(53.59)%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.34%
Other Net	43	15	(6)	21	378.52%	(5)	21	391.60%
Total other income (expenses)		(964)	(1,003)	39	3.87%	(916)	(48)	(5.29)%
Income (loss) before income taxes		1,505	1,606	(100)	(6.25)%	1,487	18	1.22%
Provision for income taxes	44	605	661	55	8.38%	601	(4)	(0.71)%
Income (loss) from continuing operations		900	945	(45)	(4.77)%	886	14	1.57%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		900	945	(45)	(4.77)%	886	14	1.57%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		900	945	(45)	(4.77)%	886	14	1.57%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		900	945	(45)	(4.77)%	886	14	1.57%

E12_Kentucky American
P&L - 2014 Landing Zone
FY15 JAN
O&V Details

2014 Original Plan - Net Income to common stockholders	15,494,188
YTD Variance - Net Income to common stockholders	(45,045)

														12 Months
Statement Lines	**Explanation**	**Total O&V**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(264,130)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(24,012)	(264,130)
Pensions		(363,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(363,000)
OPEB		-												-
Transportation	Lower fuel costs	91,667	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	91,667
Depreciation	Result of Asset Review/Retirement	183,333	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	183,333
General taxes	Increase in Property Tax Accrual	(45,833)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(45,833)
General taxes	Feb accrual for potential 3 year retro bill for Real Property Tax Owenton	(80,000)	(80,000)											(80,000)
Water revenues	Unidentified Challenge/Revenue Projects	-			-	-	-	-	-	-	-	-	-	-
Miscellaneous expenses	Unidentified Challenge/Continuous Improvement	574,283		57,428	57,428	57,428	57,428	57,428	57,428	57,428	57,428	57,428	57,428	574,283

Income Statement - Month To Date
E12_Kentucky American
Feb 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,467	6,453	14	0.22%	6,292	175	2.77%
Sewer revenues	2	34	35	(2)	(4.63)%	22	12	51.56%
Other operating revenues	3	164	147	17	11.74%	141	23	16.34%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		6,665	6,636	30	0.44%	6,456	209	3.24%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	17	25	9	34.56%	18	1	6.86%
Fuel and Power	7	320	280	(40)	(14.17)%	434	114	26.28%
Chemicals	8	101	98	(3)	(2.68)%	155	55	35.17%
Waste disposal	9	25	27	2	6.88%	12	(13)	(105.71)%
Total production costs		462	430	(32)	(7.36)%	619	157	25.37%
Salaries & Wages	10	528	560	32	5.71%	506	(23)	(4.47)%
Pensions	11	59	30	(29)	(94.57)%	19	(40)	(205.23)%
Group insurances	12	138	134	(4)	(3.09)%	114	(24)	(21.26)%
Other benefits	13	27	35	8	22.19%	27	0	(1.03)%
Total employee related		753	759	7	0.91%	666	(87)	(13.02)%
Service Company costs	14	670	646	(25)	(3.81)%	705	35	4.92%
Contracted services	15	49	58	9	15.78%	63	15	23.12%
Building maintenance and services	16	59	57	(2)	(3.77)%	65	6	9.42%
Telecommunication expenses	17	18	23	5	20.53%	20	2	9.37%
Postage printing and stationery	18	2	1	0	(26.91)%	1	(1)	(79.45)%
Office supplies & expenses	19	16	17	1	7.50%	17	2	9.78%
Advertising & marketing expenses	20	1	1	0	33.33%	-	(1)	
Employee related expense travel & entertainment	21	15	12	(3)	(29.66)%	0	(15)	(3,325.55)%
Miscellaneous expenses	22	88	94	6	6.29%	34	(54)	(161.27)%
Rents	23	4	2	(1)	(47.53)%	2	(2)	(93.29)%
Transportation	24	24	34	10	28.45%	39	15	37.72%
Operating supplies & services		275	299	24	7.96%	242	(33)	(13.56)%
Uncollectible Accounts Exp	25	71	72	1	2.00%	103	32	31.18%
Customer accounting other	26	83	81	(3)	(3.15)%	84	1	1.31%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	52	56	5	8.15%	50	(2)	(4.23)%
Maintenance service & supplies	29	87	138	51	36.74%	183	96	52.33%
Total operation and maintenance		2,473	2,501	28	1.14%	2,672	199	7.45%
Depreciation	30	994	1,007	12	1.20%	993	(1)	(0.13)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.44%	137	(14)	(9.92)%
Depreciation and Amortization		1,165	1,181	15	1.31%	1,150	(15)	(1.33)%
General taxes	33	574	475	(99)	(20.80)%	461	(113)	(24.51)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,212	4,157	(55)	(1.32)%	4,283	71	1.65%
Operating income (loss)		2,453	2,479	(25)	(1.02)%	2,173	280	12.88%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	969	(44)	(4.50)%
Interest on Short-Term Bank Debt	38	7	1	(6)	(474.22)%	5	(3)	(54.29)%
Other Interest Expense	39	-	-			-		
Interest net		1,020	1,014	(6)	(0.59)%	974	(46)	(4.73)%
Allowance for other funds used during construction	40	33	19	14	75.17%	16	17	105.84%
Allowance for borrowed funds used during construction	41	15	9	6	70.39%	8	7	96.16%
Amortization of debt expense	42	7	8	1	11.78%	8	0	5.06%
Other Net	43	32	(6)	37	672.44%	(3)	35	1,010.32%
Total other income (expenses)		(948)	(1,000)	52	5.23%	(962)	13	1.40%
Income (loss) before income taxes		1,505	1,478	27	1.82%	1,212	293	24.21%
Provision for income taxes	44	606	596	(10)	(1.66)%	490	(116)	(23.66)%
Income (loss) from continuing operations		899	882	17	1.93%	722	177	24.59%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		899	882	17	1.93%	722	177	24.59%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		899	882	17	1.93%	722	177	24.59%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		899	882	17	1.93%	722	177	24.59%

E12_Kentucky American
P&L - 2014 Landing Zone
FY15 FEB
O&V Details

2014 Original Plan - Net Income to common 15,494,188

YTD Variance - Net Income to common stockholders (27,971)

			3	4	5	6	7	8	9	10	11	12	**12 Months**
Statement Lines	**Explanation**	**Total O&V**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(288,660)	(28,866)	(28,866)	(28,866)	(28,866)	(28,866)	(28,866)	(28,866)	(28,866)	(28,866)	(28,866)	(288,660)
Pensions		(330,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(330,000)
Transportation	Lower fuel costs	83,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	83,333
Depreciation	Result of Asset Review/Retirement	166,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	166,667
General taxes	Increase in Property Tax Accrual	(41,667)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(41,667)
		-											-
		-											-
Fuel and Power	Closing the Gap - Efficiency savings	170,000			15,000	25,000	25,000	35,000	25,000	25,000	15,000	5,000	170,000
Chemicals	Closing the Gap - Sonic and other savings	85,000			7,500	12,500	12,500	17,500	12,500	12,500	7,500	2,500	85,000
Purchased water	Closing the Gap - Trending	63,750			5,625	9,375	9,375	13,125	9,375	9,375	5,625	1,875	63,750
Salaries & Wages	Closing the Gap - In-sourcing of capital projects	155,000	-	5,000	15,000	25,000	25,000	25,000	25,000	15,000	10,000	10,000	155,000
Other Net	Income Tax SUD	(78,637)										(78,637)	(78,637)
Miscellaneous expenses	Unidentified Challenge / Continuous Improvemen	78,637										78,637	78,637

Income Statement - Month To Date
E12_Kentucky American
Mar 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,082	6,334	748	11.81%	6,831	251	3.68%
Sewer revenues	2	39	36	3	7.82%	23	16	69.86%
Other operating revenues	3	185	151	34	22.79%	143	42	29.66%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,306	6,521	785	12.05%	6,997	309	4.42%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	18	25	8	31.05%	19	1	7.44%
Fuel and Power	7	304	285	(19)	(6.85)%	241	(63)	(26.22)%
Chemicals	8	133	109	(24)	(21.71)%	106	(27)	(25.30)%
Waste disposal	9	25	27	2	6.33%	25	0	1.43%
Total production costs		479	446	(34)	(7.52)%	391	(88)	(22.54)%
Salaries & Wages	10	624	611	(12)	(2.01)%	468	(156)	(33.28)%
Pensions	11	42	30	(12)	(39.46)%	25	(17)	(67.38)%
Group insurances	12	146	134	(12)	(9.17)%	119	(28)	(23.56)%
Other benefits	13	45	31	(14)	(44.11)%	28	(17)	(62.00)%
Total employee related		857	807	(50)	(6.23)%	639	(218)	(34.07)%
Service Company costs	14	625	670	46	6.81%	646	22	3.37%
Contracted services	15	62	63	1	1.97%	86	24	28.26%
Building maintenance and services	16	67	52	(15)	(29.13)%	46	(21)	(46.40)%
Telecommunication expenses	17	19	23	5	20.10%	27	8	31.39%
Postage printing and stationery	18	1	2	0	26.34%	1	0	18.45%
Office supplies & expenses	19	25	19	(5)	(28.33)%	15	(10)	(67.79)%
Advertising & marketing expenses	20	0	1	1	95.10%	1	1	95.65%
Employee related expense travel & entertainment	21	13	12	(1)	(10.16)%	20	7	34.51%
Miscellaneous expenses	22	63	75	13	16.71%	80	17	21.61%
Rents	23	3	6	2	41.05%	5	1	30.33%
Transportation	24	46	66	20	29.80%	68	22	31.93%
Operating supplies & services		299	319	20	6.27%	349	50	14.37%
Uncollectible Accounts Exp	25	44	63	19	30.46%	196	152	77.47%
Customer accounting other	26	86	86	(1)	(0.82)%	78	(9)	(11.20)%
Regulatory expense	27	20	20	0	0.00%	19	(1)	(5.90)%
Insurance other than group	28	104	56	(48)	(84.41)%	78	(26)	(33.32)%
Maintenance service & supplies	29	128	160	31	19.57%	130	1	1.02%
Total operation and maintenance		2,643	2,627	(16)	(0.61)%	2,526	(117)	(4.63)%
Depreciation	30	999	1,006	7	0.73%	1,008	9	0.88%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	3	2.14%	140	(12)	(8.41)%
Depreciation and Amortization		1,170	1,181	10	0.87%	1,167	(3)	(0.28)%
General taxes	33	484	474	(10)	(2.02)%	428	(56)	(13.14)%
Loss (gain) on sale of assets	34	(33)	-	33		-	33	
Impairment charges	35	-	-			-		
Total operating expenses net		4,264	4,282	18	0.42%	4,120	(143)	(3.48)%
Operating income (loss)		3,042	2,239	803	35.87%	2,876	166	5.77%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,046	33	3.13%
Interest on Short-Term Bank Debt	38	10	2	(8)	(458.07)%	5	(5)	(115.93)%
Other Interest Expense	39	-	-			-		
Interest net		1,023	1,015	(8)	(0.81)%	1,050	27	2.60%
Allowance for other funds used during construction	40	42	20	22	109.06%	28	13	46.43%
Allowance for borrowed funds used during construction	41	19	9	10	102.29%	13	6	45.78%
Amortization of debt expense	42	8	8	0	2.39%	8	0	(5.06)%
Other Net	43	77	(7)	84	1,194.05%	(6)	83	1,297.89%
Total other income (expenses)		(893)	(1,001)	107	10.72%	(1,023)	129	12.66%
Income (loss) before income taxes		2,149	1,238	910	73.52%	1,853	295	15.94%
Provision for income taxes	44	890	512	(378)	(73.85)%	735	(156)	(21.18)%
Income (loss) from continuing operations		1,258	726	532	73.28%	1,119	140	12.50%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,258	726	532	73.28%	1,119	140	12.50%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,258	726	532	73.28%	1,119	140	12.50%
Common dividends	47	2,680	2,665	(15)	(0.57)%	2,727	47	1.72%
Current Year Retained Earnings		(1,422)	(1,939)	517	26.66%	(1,609)	187	11.61%

E12_Kentucky American
P&L - 2014 Landing Zone
FY15 MAR
O&V Details

2014 Original Plan - Net Income to common stockholders	15,494,188
YTD Variance - Net Income to common stockholders	504,190

												12 Months
Statement Lines	**Explanation**	**Total O&V**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(288,660)	(32,073)	(32,073)	(32,073)	(32,073)	(32,073)	(32,073)	(32,073)	(32,073)	(32,073)	(288,660)
Pensions		(297,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(297,000)
OPEB		-										-
Transportation	Lower fuel costs	75,000	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	75,000
Depreciation	Result of Asset Review/Retirement	90,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
General taxes	Increase in Property Tax Accrual $5k/mth, Utlility Reg Ass. Fee $50k	(90,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(90,000)
Salaries & Wages	Overtime to cover for production vacancies	(30,000)	(10,000)	(10,000)	(10,000)							(30,000)

Income Statement - Month To Date
E12_Kentucky American
Apr 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,669	6,627	41	0.62%	6,760	(91)	(1.35)%
Sewer revenues	2	39	40	(2)	(4.15)%	27	11	42.19%
Other operating revenues	3	166	153	14	9.06%	172	(5)	(3.18)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		6,874	6,820	54	0.79%	6,959	(85)	(1.22)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	29	25	(3)	(12.90)%	14	(15)	(110.57)%
Fuel and Power	7	250	289	39	13.48%	251	1	0.33%
Chemicals	8	104	122	19	15.22%	104	1	0.86%
Waste disposal	9	21	27	6	22.38%	23	3	10.95%
Total production costs		403	463	60	13.00%	392	(11)	(2.76)%
Salaries & Wages	10	595	623	28	4.54%	573	(22)	(3.79)%
Pensions	11	49	30	(18)	(61.09)%	20	(29)	(148.52)%
Group insurances	12	136	134	(2)	(1.16)%	123	(13)	(10.49)%
Other benefits	13	30	29	(1)	(2.01)%	31	1	4.25%
Total employee related		809	817	8	0.94%	747	(62)	(8.35)%
Service Company costs	14	685	677	(8)	(1.19)%	753	68	9.04%
Contracted services	15	16	66	50	75.51%	41	24	59.95%
Building maintenance and services	16	88	48	(41)	(85.68)%	50	(38)	(75.83)%
Telecommunication expenses	17	15	23	8	33.17%	26	11	42.33%
Postage printing and stationery	18	1	1	0	8.22%	2	0	21.60%
Office supplies & expenses	19	22	18	(5)	(26.97)%	12	(10)	(84.43)%
Advertising & marketing expenses	20	0	1	1	102.70%	1	1	103.44%
Employee related expense travel & entertainment	21	19	19	1	3.77%	14	(5)	(38.36)%
Miscellaneous expenses	22	110	98	(12)	(12.16)%	77	(32)	(41.59)%
Rents	23	0	3	3	97.17%	3	3	97.28%
Transportation	24	40	34	(5)	(15.98)%	34	(5)	(15.72)%
Operating supplies & services		311	311	(1)	(0.22)%	260	(52)	(19.87)%
Uncollectible Accounts Exp	25	108	63	(44)	(70.37)%	158	50	31.69%
Customer accounting other	26	95	81	(14)	(17.77)%	88	(7)	(7.94)%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	51	56	6	9.80%	50	(1)	(1.62)%
Maintenance service & supplies	29	140	152	13	8.47%	101	(39)	(38.70)%
Total operation and maintenance		2,622	2,641	19	0.71%	2,568	(53)	(2.08)%
Depreciation	30	1,000	1,006	6	0.64%	987	(13)	(1.35)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	152	155	3	2.00%	152	0	0.30%
Depreciation and Amortization		1,171	1,181	9	0.78%	1,158	(13)	(1.14)%
General taxes	33	491	474	(17)	(3.51)%	444	(47)	(10.47)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,284	4,296	11	0.27%	4,171	(113)	(2.71)%
Operating income (loss)		2,590	2,525	65	2.58%	2,788	(198)	(7.11)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	949	(64)	(6.69)%
Interest on Short-Term Bank Debt	38	11	2	(9)	(397.22)%	4	(6)	(144.70)%
Other Interest Expense	39	-	-			-		
Interest net		1,024	1,015	(9)	(0.86)%	954	(70)	(7.34)%
Allowance for other funds used during construction	40	43	25	18	70.76%	8	35	446.69%
Allowance for borrowed funds used during construction	41	20	12	8	65.98%	4	16	451.08%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.00%
Other Net	43	0	(10)	10	101.80%	(5)	5	103.49%
Total other income (expenses)		(968)	(995)	27	2.76%	(955)	(13)	(1.38)%
Income (loss) before income taxes		1,622	1,529	92	6.05%	1,833	(211)	(11.53)%
Provision for income taxes	44	646	628	(17)	(2.77)%	733	88	11.95%
Income (loss) from continuing operations		976	901	75	8.33%	1,100	(124)	(11.25)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		976	901	75	8.33%	1,100	(124)	(11.25)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		976	901	75	8.33%	1,100	(124)	(11.25)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		976	901	75	8.33%	1,100	(124)	(11.25)%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 APR
O&V Details

2015 Original Plan - Net Income to common stockholders	15,494,188
YTD Variance - Net Income to common stockholders	579,238

											12 Months
Statement Lines	**Explanation**	**Total O&V**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(261,613)	(32,702)	(32,702)	(32,702)	(32,702)	(32,702)	(32,702)	(32,702)	(32,702)	(261,613)
Pensions		(264,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(264,000)
Transportation	Lower fuel costs	66,667	8,333	8,333	8,333	8,333	8,333	8,333	8,333	8,333	66,667
Depreciation	Result of Asset Review/Retirement	80,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	80,000
General taxes	Increase in Property Tax Accrual $5k/mth, Utlility Reg Ass. Fee $50	(80,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(80,000)
Salaries & Wages	Overtime to cover for production vacancies	(20,000)	(10,000)	(10,000)							(20,000)

Income Statement - Month To Date
E12_Kentucky American
May 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,133	6,773	360	5.31%	6,903	230	3.33%
Sewer revenues	2	33	38	(5)	(12.58)%	25	8	34.14%
Other operating revenues	3	171	175	(4)	(2.20)%	178	(7)	(4.16)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,337	6,986	351	5.02%	7,106	231	3.25%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	16	25	10	38.75%	8	(7)	(91.60)%
Fuel and Power	7	396	337	(58)	(17.24)%	364	(32)	(8.79)%
Chemicals	8	110	129	18	14.25%	146	35	24.32%
Waste disposal	9	21	27	6	23.00%	24	3	13.04%
Total production costs		542	518	(24)	(4.60)%	541	(1)	(0.17)%
Salaries & Wages	10	574	597	22	3.76%	604	30	4.95%
Pensions	11	49	30	(19)	(61.72)%	20	(29)	(147.81)%
Group insurances	12	131	134	3	2.10%	119	(13)	(10.55)%
Other benefits	13	35	32	(2)	(6.96)%	32	(2)	(6.95)%
Total employee related		789	794	4	0.54%	775	(14)	(1.81)%
Service Company costs	14	654	650	(4)	(0.67)%	759	105	13.89%
Contracted services	15	36	71	35	48.84%	83	46	56.14%
Building maintenance and services	16	31	55	24	43.70%	49	18	37.36%
Telecommunication expenses	17	18	23	5	21.00%	21	3	13.90%
Postage printing and stationery	18	1	1	0	13.48%	1	0	(65.81)%
Office supplies & expenses	19	17	17	1	4.24%	13	(3)	(23.12)%
Advertising & marketing expenses	20	1	1	0	(50.67)%	(1)	(2)	(254.16)%
Employee related expense travel & entertainment	21	15	18	2	13.73%	11	(5)	(44.91)%
Miscellaneous expenses	22	416	149	(267)	(179.65)%	132	(285)	(216.51)%
Rents	23	1	2	2	62.36%	1	0	(9.52)%
Transportation	24	21	34	13	37.31%	41	20	48.22%
Operating supplies & services		558	371	(187)	(50.37)%	351	(208)	(59.20)%
Uncollectible Accounts Exp	25	135	56	(79)	(142.37)%	177	41	23.41%
Customer accounting other	26	80	86	6	6.97%	84	4	5.07%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	51	56	5	9.50%	50	(1)	(1.59)%
Maintenance service & supplies	29	216	152	(65)	(42.52)%	174	(43)	(24.63)%
Total operation and maintenance		3,046	2,702	(343)	(12.71)%	2,931	(115)	(3.92)%
Depreciation	30	999	1,007	7	0.74%	996	(4)	(0.38)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	152	155	3	1.98%	152	1	0.50%
Depreciation and Amortization		1,171	1,181	10	0.86%	1,168	(3)	(0.29)%
General taxes	33	993	473	(521)	(110.14)%	447	(546)	(122.21)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		5,210	4,356	(854)	(19.60)%	4,546	(665)	(14.62)%
Operating income (loss)		2,127	2,630	(503)	(19.12)%	2,561	(434)	(16.94)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,076	64	5.90%
Interest on Short-Term Bank Debt	38	9	3	(6)	(190.19)%	4	(5)	(120.15)%
Other Interest Expense	39	271	-	(271)		-	(271)	
Interest net		1,293	1,016	(277)	(27.25)%	1,080	(212)	(19.65)%
Allowance for other funds used during construction	40	48	36	12	33.05%	20	28	135.76%
Allowance for borrowed funds used during construction	41	22	17	5	29.29%	9	13	133.83%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.00%
Other Net	43	(2)	(6)	3	61.84%	8	(10)	(126.83)%
Total other income (expenses)		(1,233)	(977)	(256)	(26.21)%	(1,051)	(182)	(17.35)%
Income (loss) before income taxes		894	1,653	(759)	(45.92)%	1,510	(616)	(40.80)%
Provision for income taxes	44	356	666	310	46.53%	603	247	41.02%
Income (loss) from continuing operations		538	987	(449)	(45.50)%	907	(369)	(40.65)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		538	987	(449)	(45.50)%	907	(369)	(40.65)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		538	987	(449)	(45.50)%	907	(369)	(40.65)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		538	987	(449)	(45.50)%	907	(369)	(40.65)%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 MAY
O&V Details

	2015 Original Plan - Net Income to common stockholders	15,494,188
	YTD Variance - Net Income to common stockholders	129,978

											12 Months
Statement Lines	**Explanation**	**Total O&V**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(240,725)		(34,389)	(34,389)	(34,389)	(34,389)	(34,389)	(34,389)	(34,389)	(240,725)
Pensions	Increased funding due to new actuarial mortality rate tables	(231,000)		(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(231,000)
OPEB		-									-
Transportation	Lower fuel costs (cut in half)	28,000		4,000	4,000	4,000	4,000	4,000	4,000	4,000	28,000
Water revenues	Water Revenue - better than planned usage	400,000		-	75,000	75,000	75,000	75,000	50,000	50,000	400,000
Sewer revenues	Sewer Revenue - New Rates	15,000		2,143	2,143	2,143	2,143	2,143	2,143	2,143	15,000
Other operating revenues	Other Revenue - Late Fees	100,000		14,286	14,286	14,286	14,286	14,286	14,286	14,286	100,000
		-									-
Fuel and Power	Fuel & Power - higher system delivery forecast	(55,000)			(10,000)	(10,000)	(10,000)	(10,000)	(7,500)	(7,500)	(55,000)
Chemicals	Chemicals - higher system delivery forecast	(25,000)		-	(5,000)	(5,000)	(5,000)	(5,000)	(2,500)	(2,500)	(25,000)
Waste disposal	Waste Disposal - timing get back to plan	(14,000)		(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(14,000)
		-									-
Contracted services	Contracted Services - primarily timing on legal and other	(105,000)		(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(105,000)
		-									-
Uncollectible Accounts Exp	Uncollectible Accounts (6mth roll 1.31%, plan .88%, forecasted avg of 1%)	(106,027)		(28,773)	(28,652)	(12,448)	(12,902)	(6,105)	(13,050)	(4,097)	(106,027)
Customer accounting other	Customer Accounting - Collection Agency Fees	(49,000)		(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(49,000)
		-									-
		-									-
Depreciation	Depreciation - Asset Retirement Project	70,000		10,000	10,000	10,000	10,000	10,000	10,000	10,000	70,000
General taxes	General Tax - Higher Property Tax Accrua	(105,000)		(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(105,000)
		-									-
Interest on Short-Term Bank Debt	Short Term Debt Expense	(50,000)		(6,000)	(6,000)	(7,000)	(7,000)	(8,000)	(8,000)	(8,000)	(50,000)
		-									-
AFUDC Equity	AFUDC Equity	100,000		12,000	12,000	14,000	14,000	16,000	16,000	16,000	100,000
AFUDC Debt	AFUDC Debt	50,000		6,000	6,000	7,000	7,000	8,000	8,000	8,000	50,000

Income Statement - Month To Date
E12_Kentucky American
Jun 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,022	7,573	449	5.93%	7,867	155	1.97%
Sewer revenues	2	35	34	1	4.03%	20	15	70.90%
Other operating revenues	3	210	189	21	11.26%	200	10	5.00%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,267	7,795	472	6.06%	8,088	179	2.22%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	17	25	8	31.46%	14	(4)	(25.09)%
Fuel and Power	7	370	384	14	3.61%	340	(30)	(8.77)%
Chemicals	8	156	143	(13)	(8.90)%	134	(22)	(16.72)%
Waste disposal	9	24	27	3	10.62%	23	(1)	(3.37)%
Total production costs		567	579	12	2.07%	511	(56)	(11.05)%
Salaries & Wages	10	584	623	39	6.23%	575	(9)	(1.57)%
Pensions	11	46	30	(16)	(52.74)%	19	(27)	(137.79)%
Group insurances	12	127	134	7	5.06%	117	(11)	(9.28)%
Other benefits	13	34	29	(5)	(16.66)%	27	(7)	(24.19)%
Total employee related		792	816	25	3.03%	738	(53)	(7.21)%
Service Company costs	14	716	661	(55)	(8.27)%	693	(23)	(3.37)%
Contracted services	15	155	64	(91)	(141.81)%	98	(57)	(58.65)%
Building maintenance and services	16	56	46	(10)	(20.93)%	49	(7)	(13.62)%
Telecommunication expenses	17	23	23	0	(0.21)%	21	(2)	(8.02)%
Postage printing and stationery	18	1	2	0	26.80%	1	0	10.58%
Office supplies & expenses	19	18	20	2	8.61%	17	(1)	(5.75)%
Advertising & marketing expenses	20	0	1	1	101.70%	0	0	163.00%
Employee related expense travel & entertainment	21	20	14	(6)	(44.20)%	7	(13)	(183.88)%
Miscellaneous expenses	22	124	105	(19)	(17.74)%	40	(84)	(207.11)%
Rents	23	1	2	1	55.11%	3	1	55.88%
Transportation	24	69	34	(35)	(102.19)%	41	(28)	(69.64)%
Operating supplies & services		468	312	(156)	(49.91)%	278	(190)	(68.40)%
Uncollectible Accounts Exp	25	65	63	(2)	(3.35)%	132	67	50.61%
Customer accounting other	26	89	81	(8)	(9.92)%	93	5	5.06%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	105	56	(48)	(85.79)%	124	20	15.70%
Maintenance service & supplies	29	204	142	(62)	(43.61)%	196	(8)	(3.95)%
Total operation and maintenance		3,026	2,731	(294)	(10.77)%	2,786	(240)	(8.61)%
Depreciation	30	923	1,008	85	8.42%	997	74	7.41%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	155	155	0	(0.26)%	153	(2)	(1.45)%
Depreciation and Amortization		1,098	1,182	84	7.11%	1,169	71	6.09%
General taxes	33	485	477	(8)	(1.77)%	441	(44)	(10.10)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,609	4,390	(219)	(4.98)%	4,396	(213)	(4.85)%
Operating income (loss)		3,658	3,405	253	7.44%	3,692	(34)	(0.91)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	8	5	(3)	(56.45)%	4	(4)	(84.09)%
Other Interest Expense	39	-	-			-		
Interest net		1,021	1,018	(3)	(0.29)%	1,017	(4)	(0.36)%
Allowance for other funds used during construction	40	52	49	3	7.12%	23	29	121.69%
Allowance for borrowed funds used during construction	41	24	23	1	4.11%	11	13	121.69%
Amortization of debt expense	42	8	8	1	7.09%	8	0	0.00%
Other Net	43	4	(6)	10	176.06%	(2)	6	349.62%
Total other income (expenses)		(948)	(960)	12	1.23%	(992)	44	4.41%
Income (loss) before income taxes		2,710	2,445	265	10.85%	2,700	10	0.37%
Provision for income taxes	44	1,152	978	(174)	(17.75)%	1,072	(79)	(7.40)%
Income (loss) from continuing operations		1,558	1,466	92	6.25%	1,627	(69)	(4.25)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,558	1,466	92	6.25%	1,627	(69)	(4.25)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,558	1,466	92	6.25%	1,627	(69)	(4.25)%
Common dividends	47	2,273	1,927	(346)	(17.96)%	2,038	(235)	(11.54)%
Current Year Retained Earnings		(715)	(460)	(254)	(55.24)%	(410)	(304)	(74.19)%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 JUN
O&V Details

half of commercial
330000 for three weeks

2015 Original Plan - Net Income to common stockholders 15,494,188
YTD Variance - Net Income to common stockholders 221,672

									12 Months
Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(189,054)	(31,509)	(31,509)	(31,509)	(31,509)	(31,509)	(31,509)	(189,054)
Pensions	Increased funding due to new actuarial mortality rate tables	(198,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(198,000)
OPEB		-							-
Transportation	Lower fuel costs (cut in half)	21,000	4,000	4,000	4,000	3,000	3,000	3,000	21,000
Water revenues	Water Revenue - better than planned usage; fire services	134,387	(215,613)	75,000	75,000	100,000	50,000	50,000	134,387
Sewer revenues	Sewer Revenue - New Rates	12,857	2,143	2,143	2,143	2,143	2,143	2,143	12,857
Other operating revenues	Other Revenue - Late Fees	85,714	14,286	14,286	14,286	14,286	14,286	14,286	85,714
		-							-
Purchased water	Purchased Water - optimization	18,000	3,000	3,000	3,000	3,000	3,000	3,000	18,000
Fuel and Power	Fuel & Power - July V / higher system delivery forecast	(25,000)	20,000	(10,000)	(10,000)	(10,000)	(7,500)	(7,500)	(25,000)
Chemicals	Chemicals - July V / higher system delivery forecast	(15,000)	5,000	(5,000)	(5,000)	(5,000)	(2,500)	(2,500)	(15,000)
		-							-
Contracted services	Contracted Services - timing of legal and other	(10,000)	4,000	4,000	(30,000)	4,000	4,000	4,000	(10,000)
		-							-
Uncollectible Accounts Exp	Uncollectible Accounts (6mth roll 1.31%, plan .88%, forecasted avg of 1%)	(86,051)	(28,652)	(12,448)	(12,902)	(12,902)	(13,050)	(6,097)	(86,051)
Customer accounting other	Customer Accounting - Collection Agency Fees	(42,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(42,000)
		-							-
Depreciation	Depreciation - Asset Retirement Project	60,000	10,000	10,000	10,000	10,000	10,000	10,000	60,000
General taxes	General Tax - Higher Property Tax Accrual	(90,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(90,000)
		-							-
Interest on Short-Term Bank Del	Short Term Debt Expense	(48,000)	(7,000)	(8,000)	(8,000)	(8,000)	(8,500)	(8,500)	(48,000)

Income Statement - Month To Date
E12_Kentucky American
Jul 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	7,902	8,266	(364)	(4.40)%	8,394	(492)	(5.86)%
Sewer revenues	2	38	34	4	10.26%	28	9	32.56%
Other operating revenues	3	213	194	18	9.42%	209	4	1.94%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,152	8,495	(342)	(4.03)%	8,631	(478)	(5.54)%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	26	25	(1)	(2.26)%	(48)	(74)	(154.29)%
Fuel and Power	7	324	380	55	14.57%	391	67	17.08%
Chemicals	8	221	174	(47)	(27.14)%	136	(85)	(62.12)%
Waste disposal	9	22	27	5	19.14%	22	1	2.29%
Total production costs		593	606	13	2.09%	502	(91)	(18.23)%
Salaries & Wages	10	636	649	13	2.05%	608	(28)	(4.58)%
Pensions	11	50	30	(20)	(65.83)%	20	(30)	(153.66)%
Group insurances	12	146	134	(12)	(9.07)%	125	(21)	(16.92)%
Other benefits	13	32	31	(1)	(2.88)%	32	0	(1.45)%
Total employee related		864	844	(20)	(2.33)%	784	(80)	(10.19)%
Service Company costs	14	702	675	(28)	(4.08)%	758	56	7.34%
Contracted services	15	69	68	(1)	(1.50)%	94	25	27.04%
Building maintenance and services	16	60	47	(13)	(27.23)%	79	19	24.58%
Telecommunication expenses	17	21	23	2	6.68%	26	4	16.03%
Postage printing and stationery	18	3	1	(2)	(144.12)%	2	(1)	(41.71)%
Office supplies & expenses	19	19	17	(2)	(9.32)%	23	4	17.33%
Advertising & marketing expenses	20	6	1	(5)	(465.30)%	2	(4)	(184.36)%
Employee related expense travel & entertainment	21	15	22	7	30.47%	17	2	9.50%
Miscellaneous expenses	22	64	80	15	19.26%	134	70	51.98%
Rents	23	0	3	3	100.00%	0	0	99.94%
Transportation	24	32	35	3	7.23%	42	10	23.44%
Operating supplies & services		290	296	7	2.21%	419	130	30.94%
Uncollectible Accounts Exp	25	60	63	3	5.26%	18	(42)	(229.75)%
Customer accounting other	26	97	86	(12)	(13.70)%	80	(17)	(21.51)%
Regulatory expense	27	70	20	(50)	(251.02)%	20	(50)	(251.02)%
Insurance other than group	28	52	56	5	8.18%	50	(2)	(4.38)%
Maintenance service & supplies	29	135	150	15	9.98%	188	53	28.14%
Total operation and maintenance		2,864	2,797	(67)	(2.40)%	2,819	(45)	(1.58)%
Depreciation	30	1,003	1,009	6	0.61%	998	(5)	(0.54)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.74%	153	2	1.22%
Depreciation and Amortization		1,174	1,184	10	0.85%	1,170	(4)	(0.33)%
General taxes	33	490	478	(11)	(2.39)%	413	(77)	(18.52)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,527	4,459	(69)	(1.54)%	4,402	(125)	(2.84)%
Operating income (loss)		3,625	4,036	(411)	(10.17)%	4,228	(603)	(14.27)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	7	5	(2)	(36.66)%	4	(3)	(82.02)%
Other Interest Expense	39	-	-			-		
Interest net		1,020	1,018	(2)	(0.19)%	1,017	(3)	(0.32)%
Allowance for other funds used during construction	40	66	62	4	6.93%	12	54	455.44%
Allowance for borrowed funds used during construction	41	30	29	1	3.93%	5	25	455.44%
Amortization of debt expense	42	9	8	0	(6.06)%	7	(1)	(15.33)%
Other Net	43	(2)	(6)	4	72.59%	6	(8)	(124.31)%
Total other income (expenses)		(933)	(940)	7	0.75%	(1,001)	67	6.71%
Income (loss) before income taxes		2,692	3,095	(404)	(13.04)%	3,228	(536)	(16.61)%
Provision for income taxes	44	1,085	1,237	152	12.28%	1,289	204	15.86%
Income (loss) from continuing operations		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,607	1,859	(252)	(13.54)%	1,939	(332)	(17.11)%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 JUL
O&V Details

	2015 Original Plan - Net Income to common stockholders	15,494,188							
	YTD Variance - Net Income to common stockholders	(30,088)							
									12 Months
Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(170,976)		(34,195)	(34,195)	(34,195)	(34,195)	(34,195)	(170,976)
Pensions	Increased funding due to new actuarial mortality rate tables	(165,000)		(33,000)	(33,000)	(33,000)	(33,000)	(33,000)	(165,000)
OPEB		-							-
Transportation	Lower fuel costs (cut in half)	23,000		5,000	5,000	5,000	4,000	4,000	23,000
Water revenues	Water Revenue - better than planned usage; fire services	300,000		50,000	50,000	100,000	50,000	50,000	300,000
Water revenues	Water Revenue - Projected Revenue Miss - August	(200,000)		(200,000)					(200,000)
Sewer revenues	Sewer Revenue - New Rates	10,000		2,000	2,000	2,000	2,000	2,000	10,000
Other operating revenues	Other Revenue - Late Fees	100,000		20,000	20,000	20,000	20,000	20,000	100,000
		-							-
Purchased water	Purchased Water - optimization	25,000		5,000	5,000	5,000	5,000	5,000	25,000
Fuel and Power	Fuel & Power - July V / higher system delivery forecast	(15,000)		(5,000)	(5,000)	(5,000)		-	(15,000)
Chemicals	Chemicals - July V / higher system delivery forecast	(30,000)		(10,000)	(10,000)	(10,000)	-	-	(30,000)
		-							-
Salaries & Wages	More capital work	30,000		10,000	5,000	5,000	5,000	5,000	30,000
		-							-
Uncollectible Accounts Exp	Uncollectible Accounts	(25,000)		(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(25,000)
Customer accounting other	Customer Accounting - Collection Agency Fees	(35,000)		(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(35,000)
Miscellaneous expenses	Unidentified Challenge	79,000		10,000	10,000	20,000	20,000	19,000	79,000
Depreciation	Depreciation - Asset Retirement Project	100,000		20,000	20,000	20,000	20,000	20,000	100,000
General taxes	General Tax - Higher Property Tax Accrual	(75,000)		(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(75,000)
		-							-
Allowance for other funds us	Running favorable to plan	100,000		20,000	20,000	20,000	20,000	20,000	100,000

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Aug 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,137	8,211	(74)	(0.90)%	7,849	288	3.67%
Sewer revenues	2	39	39	(1)	(1.37)%	21	17	80.87%
Other operating revenues	3	221	204	17	8.08%	239	(18)	(7.49)%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,396	8,454	(58)	(0.69)%	8,109	287	3.54%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	22	16	(5)	(31.38)%	15	(7)	(48.66)%
Fuel and Power	7	399	383	(16)	(4.18)%	342	(57)	(16.82)%
Chemicals	8	170	171	1	0.75%	189	20	10.36%
Waste disposal	9	15	27	12	45.44%	23	8	36.08%
Total production costs		605	597	(8)	(1.30)%	568	(37)	(6.46)%
Salaries & Wages	10	596	597	1	0.15%	538	(58)	(10.77)%
Pensions	11	50	30	(20)	(66.47)%	20	(30)	(150.51)%
Group insurances	12	137	134	(3)	(2.16)%	109	(28)	(25.20)%
Other benefits	13	30	32	2	6.76%	28	(2)	(6.83)%
Total employee related		814	794	(20)	(2.51)%	696	(118)	(16.92)%
Service Company costs	14	763	639	(124)	(19.44)%	685	(78)	(11.34)%
Contracted services	15	78	65	(13)	(20.45)%	43	(35)	(80.46)%
Building maintenance and services	16	34	48	14	28.98%	55	21	37.34%
Telecommunication expenses	17	19	23	4	17.03%	27	8	29.34%
Postage printing and stationery	18	5	5	1	11.64%	1	(3)	(240.72)%
Office supplies & expenses	19	18	17	(1)	(5.41)%	9	(9)	(99.41)%
Advertising & marketing expenses	20	7	1	(7)	(874.67)%	0	(8)	(2,365.96)%
Employee related expense travel & entertainment	21	12	14	1	9.68%	31	19	61.04%
Miscellaneous expenses	22	110	82	(28)	(33.91)%	82	(29)	(35.35)%
Rents	23	0	3	2	82.61%	(1)	(2)	(136.65)%
Transportation	24	41	34	(7)	(21.22)%	43	2	3.50%
Operating supplies & services		326	293	(34)	(11.59)%	290	(36)	(12.46)%
Uncollectible Accounts Exp	25	81	71	(10)	(14.62)%	53	(28)	(51.54)%
Customer accounting other	26	93	81	(12)	(15.28)%	94	1	1.37%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	51	56	6	9.90%	50	(1)	(2.13)%
Maintenance service & supplies	29	150	147	(3)	(2.13)%	219	69	31.49%
Total operation and maintenance		2,903	2,697	(206)	(7.64)%	2,676	(227)	(8.46)%
Depreciation	30	1,009	1,010	1	0.14%	1,002	(7)	(0.69)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.35%	153	2	1.04%
Depreciation and Amortization		1,180	1,185	5	0.39%	1,174	(6)	(0.48)%
General taxes	33	519	474	(45)	(9.58)%	442	(78)	(17.56)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,602	4,356	(247)	(5.66)%	4,293	(310)	(7.22)%
Operating income (loss)		3,794	4,098	(305)	(7.43)%	3,816	(23)	(0.59)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	8	6	(3)	(48.86)%	4	(5)	(128.40)%
Other Interest Expense	39	-	-			-		
Interest net		1,021	1,018	(3)	(0.27)%	1,016	(5)	(0.46)%
Allowance for other funds used during construction	40	66	76	(10)	(12.87)%	16	50	319.38%
Allowance for borrowed funds used during construction	41	29	36	(6)	(17.82)%	7	22	306.82%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(12.98)%
Other Net	43	3	(6)	9	159.04%	(25)	28	112.97%
Total other income (expenses)		(931)	(920)	(11)	(1.15)%	(1,026)	95	9.30%
Income (loss) before income taxes		2,863	3,178	(315)	(9.92)%	2,790	73	2.61%
Provision for income taxes	44	1,154	1,255	101	8.05%	1,114	(39)	(3.54)%
Income (loss) from continuing operations		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,709	1,924	(214)	(11.14)%	1,676	33	2.00%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 AUG
O&V Details

	2015 Original Plan - Net Income to common stockholders	15,494,188	
	YTD Variance - Net Income to common stockholders	(244,381)	

Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**12 Months** **Total**
Service Company costs	Changes in Service Company fees per corporate	(135,291)			(33,823)	(33,823)	(33,823)	(33,823)	(135,291)
Pensions	Increased funding due to new actuarial mortality rate tables	(132,000)			(33,000)	(33,000)	(33,000)	(33,000)	(132,000)
OPEB		-							-
Transportation	Lower fuel costs (cut in half)	40,000			10,000	10,000	10,000	10,000	40,000
Water revenues	Water Revenue - reprofile, Breeders Cup; fire services	225,000			(100,000)	200,000	75,000	50,000	225,000
		-							-
Sewer revenues	Sewer Revenue - New Rates	8,000			2,000	2,000	2,000	2,000	8,000
Other operating revenues	Other Revenue - Late Fees	80,000			20,000	20,000	20,000	20,000	80,000
		-							-
Purchased water	Purchased Water - optimization	20,000			5,000	5,000	5,000	5,000	20,000
Fuel and Power	Fuel & Power - higher system delivery forecast	-			5,000	(15,000)	5,000	5,000	-
Chemicals	Chemicals - water quality	(22,000)			(6,000)	(10,000)	(3,000)	(3,000)	(22,000)
Waste disposal	Favorable run rate	20,000			5,000	5,000	5,000	5,000	20,000
Salaries & Wages	More capital work/vacancies	40,000			10,000	10,000	10,000	10,000	40,000
Building maintenance and s	Renegotiated savings on janitorial, waste, landscaping	40,000			10,000	10,000	10,000	10,000	40,000
Telecommunication expens	Lower run rate	16,000			4,000	4,000	4,000	4,000	16,000
Rents	Copier contract savings	8,000			2,000	2,000	2,000	2,000	8,000
Uncollectible Accounts Exp	Uncollectible Accounts	(20,000)			(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Customer accounting other	Customer Accounting - Collection Agency Fees	(20,000)			(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Depreciation	Depreciation - Asset Retirement Project	80,000			20,000	20,000	20,000	20,000	80,000
General taxes	General Tax - Higher Property Tax Accrual for 2014 bill	(60,000)			(15,000)	(15,000)	(15,000)	(15,000)	(60,000)
		-							-
Contracted services	KPMG Sales Tax Audit Fees	(126,000)			(126,000)	-	-	-	(126,000)
Contracted services	Reclass Engineering Exp	40,000			40,000	-	-	-	40,000
Contracted services	Reclass Engineering Overheads	15,000			15,000	-	-	-	15,000
Depreciation	Reversal of over depreciated assets	300,000			300,000	-	-	-	300,000
		-			-	-	-	-	-
Water revenues	Net Income impact of not closing No Middletown in 2015	(3,000)			-	-	-	(3,000)	(3,000)

Income Statement - Month To Date
E12_Kentucky American
Sep 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,621	8,283	339	4.09%	7,579	1,042	13.75%
Sewer revenues	2	43	41	3	6.73%	35	9	24.52%
Other operating revenues	3	216	168	48	28.31%	185	30	16.34%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,880	8,492	389	4.58%	7,799	1,081	13.86%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	33	16	(16)	(98.43)%	33	0	1.27%
Fuel and Power	7	436	362	(74)	(20.54)%	301	(135)	(44.91)%
Chemicals	8	135	134	(1)	(1.05)%	167	32	19.06%
Waste disposal	9	12	27	14	54.00%	23	10	46.07%
Total production costs		616	539	(77)	(14.38)%	524	(92)	(17.64)%
Salaries & Wages	10	650	623	(27)	(4.33)%	572	(78)	(13.64)%
Pensions	11	51	30	(21)	(70.24)%	20	(32)	(159.62)%
Group insurances	12	144	134	(10)	(7.31)%	121	(23)	(18.79)%
Other benefits	13	32	33	0	1.29%	27	(5)	(19.81)%
Total employee related		878	820	(58)	(7.02)%	740	(138)	(18.62)%
Service Company costs	14	643	647	4	0.61%	777	133	17.18%
Contracted services	15	333	55	(278)	(503.73)%	81	(252)	(312.49)%
Building maintenance and services	16	54	47	(7)	(16.07)%	65	10	16.23%
Telecommunication expenses	17	21	23	2	6.81%	21	(1)	(3.59)%
Postage printing and stationery	18	3	2	(2)	(102.06)%	1	(2)	(150.97)%
Office supplies & expenses	19	19	18	(1)	(3.99)%	9	(9)	(98.05)%
Advertising & marketing expenses	20	0	1	1	80.00%	2	2	88.66%
Employee related expense travel & entertainment	21	15	12	(3)	(24.85)%	26	11	42.92%
Miscellaneous expenses	22	62	85	23	27.49%	101	39	38.76%
Rents	23	1	2	2	69.18%	4	3	79.79%
Transportation	24	34	34	1	1.53%	38	5	12.20%
Operating supplies & services		541	279	(263)	(94.31)%	347	(195)	(56.09)%
Uncollectible Accounts Exp	25	136	63	(73)	(116.60)%	(176)	(312)	(177.02)%
Customer accounting other	26	89	86	(4)	(4.19)%	93	4	3.84%
Regulatory expense	27	20	20	0	0.00%	20	0	0.00%
Insurance other than group	28	121	56	(64)	(114.19)%	34	(87)	(258.44)%
Maintenance service & supplies	29	111	139	28	19.94%	127	16	12.66%
Total operation and maintenance		3,156	2,648	(507)	(19.16)%	2,485	(671)	(27.01)%
Depreciation	30	690	1,011	321	31.77%	1,010	320	31.72%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	152	155	4	2.29%	153	2	1.06%
Depreciation and Amortization		861	1,185	324	27.36%	1,183	322	27.20%
General taxes	33	496	476	(21)	(4.41)%	774	277	35.85%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,513	4,309	(204)	(4.73)%	4,441	(72)	(1.62)%
Operating income (loss)		4,367	4,182	185	4.42%	3,358	1,009	30.05%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	6	7	1	19.68%	3	(3)	(115.64)%
Other Interest Expense	39	-	-			0	0	100.00%
Interest net		1,019	1,020	1	0.14%	1,016	(3)	(0.32)%
Allowance for other funds used during construction	40	77	90	(13)	(14.88)%	26	51	194.18%
Allowance for borrowed funds used during construction	41	35	42	(7)	(17.27)%	12	23	194.18%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(14.58)%
Other Net	43	(3)	(6)	2	42.62%	4	(7)	(176.35)%
Total other income (expenses)		(919)	(901)	(17)	(1.93)%	(981)	62	6.34%
Income (loss) before income taxes		3,449	3,281	167	5.10%	2,377	1,071	45.07%
Provision for income taxes	44	1,398	1,298	(100)	(7.68)%	173	(1,225)	(709.07)%
Income (loss) from continuing operations		2,051	1,983	68	3.42%	2,204	(154)	(6.97)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		2,051	1,983	68	3.42%	2,204	(154)	(6.97)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		2,051	1,983	68	3.42%	2,204	(154)	(6.97)%
Common dividends	47	2,304	2,500	196	7.84%	2,727	423	15.52%
Current Year Retained Earnings		(253)	(517)	264	51.01%	(523)	270	51.57%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 SEP
O&V Details

2015 Original Plan - Net Income to common stockholders	15,494,188
YTD Variance - Net Income to common stockholders	(176,597)

								12 Months
Statement Lines	**Explanation**	**Total O&V**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(102,248)			(34,083)	(34,083)	(34,083)	(102,248)
Pensions	Increased funding due to new actuarial mortality rate tables	(99,000)			(33,000)	(33,000)	(33,000)	(99,000)
OPEB		-						-
Transportation	Lower fuel costs (cut in half)	30,000			10,000	10,000	10,000	30,000
Water revenues	Water Revenue - reprofile, Breeders Cup; fire services	225,000			100,000	75,000	50,000	225,000
Sewer revenues	Sewer Revenue - New Rates	9,000			3,000	3,000	3,000	9,000
Other operating revenues	Other Revenue - Late Fees	140,000			50,000	45,000	45,000	140,000
		-						-
Purchased water	Purchased Water	(25,000)			(15,000)	(5,000)	(5,000)	(25,000)
Fuel and Power	Fuel & Power - higher system delivery forecast	(25,000)			(25,000)			(25,000)
Waste disposal	Favorable run rate	15,000			5,000	5,000	5,000	15,000
Salaries & Wages	More capital work/vacancies/reduce OT	60,000			10,000	20,000	30,000	60,000
Building maintenance and services	Renegotiated savings on janitorial, waste, landscaping/Dec trueup	45,000			10,000	10,000	25,000	45,000
Telecommunication expenses	Lower run rate	12,000			4,000	4,000	4,000	12,000
Rents	Copier contract savings	6,000			2,000	2,000	2,000	6,000
Uncollectible Accounts Exp	Uncollectible Accounts	(15,000)			(5,000)	(5,000)	(5,000)	(15,000)
Customer accounting other	Customer Accounting - Collection Agency Fees	(15,000)			(5,000)	(5,000)	(5,000)	(15,000)
Depreciation	Depreciation - Asset Retirement Project	75,000			25,000	25,000	25,000	75,000
General taxes	General Tax - Higher Property Tax Accrual for 2014 bill	(45,000)			(15,000)	(15,000)	(15,000)	(45,000)
Miscellaneous expenses	Managed reductions in EA	11,100					11,100	11,100
		-						-
		-						-
Water revenues	Net Income impact of not closing No Middletown in 2015	(3,000)			-	-	(3,000)	(3,000)

AMERICAN WATER

Income Statement - Month To Date
E12_Kentucky American
Oct 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	8,149	7,671	478	6.23%	7,613	536	7.04%
Sewer revenues	2	39	44	(5)	(11.02)%	42	(2)	(5.72)%
Other operating revenues	3	196	167	29	17.46%	175	21	11.71%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		8,384	7,882	502	6.37%	7,830	554	7.08%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	26	16	(10)	(59.53)%	24	(2)	(9.95)%
Fuel and Power	7	297	324	27	8.46%	317	20	6.42%
Chemicals	8	118	108	(10)	(9.65)%	174	56	32.22%
Waste disposal	9	12	27	14	53.64%	28	16	55.73%
Total production costs		453	475	22	4.54%	543	90	16.51%
Salaries & Wages	10	570	623	53	8.52%	579	9	1.62%
Pensions	11	45	30	(15)	(49.70)%	21	(24)	(116.60)%
Group insurances	12	128	134	6	4.72%	118	(10)	(8.11)%
Other benefits	13	39	32	(7)	(22.40)%	27	(12)	(45.65)%
Total employee related		782	819	37	4.55%	745	(37)	(4.94)%
Service Company costs	14	643	640	(3)	(0.47)%	682	39	5.69%
Contracted services	15	37	62	26	40.91%	88	51	58.21%
Building maintenance and services	16	1	50	49	97.97%	52	51	98.04%
Telecommunication expenses	17	18	23	5	23.02%	16	(2)	(11.64)%
Postage printing and stationery	18	7	2	(5)	(304.73)%	1	(5)	(409.61)%
Office supplies & expenses	19	21	19	(3)	(13.84)%	16	(5)	(32.46)%
Advertising & marketing expenses	20	0	1	1	73.60%	0	0	(32.00)%
Employee related expense travel & entertainment	21	24	14	(10)	(68.41)%	15	(9)	(61.26)%
Miscellaneous expenses	22	12	72	60	83.72%	130	118	90.97%
Rents	23	4	3	(2)	(78.82)%	8	4	44.86%
Transportation	24	32	34	2	6.04%	44	12	26.79%
Operating supplies & services		156	280	124	44.19%	371	215	57.84%
Uncollectible Accounts Exp	25	94	64	(30)	(47.34)%	49	(45)	(91.77)%
Customer accounting other	26	93	81	(13)	(16.01)%	92	(1)	(1.06)%
Regulatory expense	27	19	19	0	0.00%	20	1	3.08%
Insurance other than group	28	50	56	6	11.08%	49	(1)	(1.46)%
Maintenance service & supplies	29	169	134	(35)	(25.86)%	147	(22)	(14.75)%
Total operation and maintenance		2,461	2,569	108	4.21%	2,699	238	8.83%
Depreciation	30	1,015	1,011	(3)	(0.34)%	1,012	(3)	(0.27)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.58%	153	2	1.49%
Depreciation and Amortization		1,186	1,186	0	0.02%	1,185	(1)	(0.06)%
General taxes	33	492	474	(18)	(3.79)%	480	(12)	(2.48)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,138	4,228	90	2.14%	4,364	226	5.17%
Operating income (loss)		4,246	3,654	592	16.20%	3,466	780	22.50%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	7	8	0	5.98%	3	(4)	(132.52)%
Other Interest Expense	39	0	-	0		-	0	
Interest net		1,020	1,020	0	0.04%	1,016	(4)	(0.41)%
Allowance for other funds used during construction	40	92	102	(10)	(9.96)%	30	62	204.94%
Allowance for borrowed funds used during construction	41	42	48	(6)	(12.49)%	14	28	204.94%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(13.71)%
Other Net	43	(8)	(6)	(3)	(48.74)%	(4)	(4)	(110.02)%
Total other income (expenses)		(903)	(883)	(19)	(2.15)%	(983)	81	8.22%
Income (loss) before income taxes		3,343	2,770	573	20.69%	2,483	861	34.67%
Provision for income taxes	44	1,349	1,096	(253)	(23.04)%	990	(358)	(36.19)%
Income (loss) from continuing operations		1,995	1,674	320	19.14%	1,492	502	33.66%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,995	1,674	320	19.14%	1,492	502	33.66%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,995	1,674	320	19.14%	1,492	502	33.66%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,995	1,674	320	19.14%	1,492	502	33.66%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 OCT
O&V Details

2015 Original Plan - Net Income to common stockholders	15,494,188
YTD Variance - Net Income to common stockholders	143,861

									12 Months
Statement Lines	**Explanation**	**Total O&V**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(81,243)				-	(40,621)	(40,621)	(81,243)
Pensions	Increased funding due to new actuarial mortality rate tables	(66,000)					(33,000)	(33,000)	(66,000)
OPEB		-							-
Transportation	Lower fuel costs (cut in half)	20,000					10,000	10,000	20,000
		-							-
Water revenues	Water Revenue - reprofile, Breeders Cup; fire services	100,000					50,000	50,000	100,000
Other operating revenues	Other Revenue - Late Fees	60,000					30,000	30,000	60,000
		-							-
Purchased water	Purchased Water	(10,000)					(5,000)	(5,000)	(10,000)
Waste disposal	Favorable run rate	10,000					5,000	5,000	10,000
		-							-
Salaries & Wages	More capital work/vacancies/reduce OT	50,000					20,000	30,000	50,000
		-							-
Building maintenance and services	Renegotiated savings on janitorial, waste, landscaping	10,000					5,000	5,000	10,000
Telecommunication expenses	Lower run rate	8,000					4,000	4,000	8,000
Miscellaneous expenses	Managed reductions in EA	11,100						11,100	11,100
		-							-
Uncollectible Accounts Exp	Uncollectible Accounts	(60,000)					(30,000)	(30,000)	(60,000)
Customer accounting other	Customer Accounting - Collection Agency Fees	(20,000)					(10,000)	(10,000)	(20,000)
		-							-
Depreciation	Depreciation - Asset Retirement Project	50,000					25,000	25,000	50,000
Depreciation	Depreciation - Higher In-service than Planned	(20,000)					(10,000)	(10,000)	(20,000)
General taxes	General Tax - Higher Property Tax Accrual for 2014 bill	(30,000)					(15,000)	(15,000)	(30,000)
		-							-
Maintenance service & supplies	Targeted Spend in Maintenance	(262,000)						(262,000)	(262,000)
		-							-
Water revenues	Net Income impact of not closing No Middletown in 2015	(3,000)					-	(3,000)	(3,000)

Income Statement - Month To Date
E12_Kentucky American
Nov 2015
($ In Thousands)

		MTD Actuals	MTD Budget	Variance Favorable (Unfavorable)	% Variance	MTD Pr. Yr.	Variance Favorable (Unfavorable)	% Variance
OPERATING REVENUES								
Water revenues	1	6,883	6,893	(10)	(0.15)%	6,691	191	2.86%
Sewer revenues	2	39	44	(5)	(11.62)%	36	3	8.31%
Other operating revenues	3	175	150	25	16.73%	161	14	8.54%
Market-Based revenues	4	-	-			-		
Management revenues	5	-	-			-		
Operating revenues		7,096	7,087	10	0.14%	6,888	208	3.02%
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	6	20	16	(4)	(24.01)%	7	(13)	(187.21)%
Fuel and Power	7	315	284	(30)	(10.61)%	252	(62)	(24.62)%
Chemicals	8	119	119	0	(0.20)%	97	(22)	(22.64)%
Waste disposal	9	22	27	5	17.58%	24	2	10.16%
Total production costs		476	446	(30)	(6.65)%	381	(95)	(24.91)%
Salaries & Wages	10	678	604	(74)	(12.21)%	512	(166)	(32.40)%
Pensions	11	50	30	(19)	(63.76)%	21	(29)	(138.59)%
Group insurances	12	142	134	(7)	(5.50)%	109	(32)	(29.35)%
Other benefits	13	32	34	2	4.85%	11	(21)	(181.63)%
Total employee related		901	802	(99)	(12.31)%	653	(248)	(37.87)%
Service Company costs	14	683	623	(60)	(9.60)%	715	32	4.42%
Contracted services	15	90	54	(36)	(67.14)%	12	(78)	(647.15)%
Building maintenance and services	16	48	45	(3)	(7.24)%	20	(28)	(140.06)%
Telecommunication expenses	17	20	23	3	14.73%	18	(2)	(11.29)%
Postage printing and stationery	18	2	1	(1)	(47.22)%	2	0	1.79%
Office supplies & expenses	19	25	18	(7)	(39.84)%	(6)	(30)	(544.94)%
Advertising & marketing expenses	20	0	1	1	106.93%	-	0	
Employee related expense travel & entertainment	21	163	9	(154)	(1,701.42)%	16	(148)	(946.57)%
Miscellaneous expenses	22	68	78	10	12.45%	46	(23)	(49.32)%
Rents	23	0	2	2	86.50%	4	3	90.52%
Transportation	24	39	34	(5)	(13.34)%	70	31	44.58%
Operating supplies & services		455	265	(190)	(71.68)%	181	(274)	(151.69)%
Uncollectible Accounts Exp	25	8	50	42	84.68%	120	112	93.64%
Customer accounting other	26	96	86	(11)	(12.51)%	92	(5)	(4.93)%
Regulatory expense	27	19	19	0	0.00%	20	1	3.08%
Insurance other than group	28	51	56	5	9.34%	49	(2)	(3.61)%
Maintenance service & supplies	29	126	157	32	20.07%	92	(34)	(37.14)%
Total operation and maintenance		2,815	2,505	(310)	(12.37)%	2,302	(512)	(22.25)%
Depreciation	30	1,015	1,029	14	1.36%	969	(46)	(4.79)%
Amortization	31	20	20	0	(1.76)%	20	0	(1.76)%
Removal costs	32	151	155	4	2.42%	149	(2)	(1.42)%
Depreciation and Amortization		1,186	1,204	17	1.44%	1,138	(49)	(4.29)%
General taxes	33	490	471	(19)	(4.08)%	478	(12)	(2.42)%
Loss (gain) on sale of assets	34	-	-			-		
Impairment charges	35	-	-			-		
Total operating expenses net		4,491	4,179	(312)	(7.46)%	3,918	(573)	(14.61)%
Operating income (loss)		2,605	2,907	(302)	(10.38)%	2,970	(364)	(12.27)%
OTHER INCOME (EXPENSES)								
Interest Income	36	-	-			-		
Interest on long-term debt	37	1,013	1,013	0	0.00%	1,013	0	0.00%
Interest on Short-Term Bank Debt	38	7	7	0	2.50%	3	(3)	(100.59)%
Other Interest Expense	39	-	-			-		
Interest net		1,019	1,020	0	0.02%	1,016	(3)	(0.32)%
Allowance for other funds used during construction	40	100	111	(11)	(10.33)%	34	66	192.67%
Allowance for borrowed funds used during construction	41	46	52	(7)	(12.84)%	16	30	192.77%
Amortization of debt expense	42	9	8	0	(6.06)%	8	(1)	(14.14)%
Other Net	43	(3)	(6)	3	47.39%	(19)	16	84.88%
Total other income (expenses)		(886)	(870)	(16)	(1.83)%	(993)	108	10.82%
Income (loss) before income taxes		1,720	2,037	(318)	(15.60)%	1,977	(257)	(13.00)%
Provision for income taxes	44	630	804	174	21.63%	783	152	19.47%
Income (loss) from continuing operations		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%
Income (loss) from discontinued operations - net of tax		-	-			-		
Net income (loss)		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%
Preferred dividend declared	45	-	-			-		
Net income attributable to non-controlling interest	46	-	-			-		
Net income available to common stockholders		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%
Common dividends	47	-	0	0		-		
Current Year Retained Earnings		1,089	1,233	(144)	(11.66)%	1,194	(104)	(8.75)%

E12_Kentucky American
P&L - 2015 Landing Zone
FY15 NOV
O&V Details

	2015 Original Plan - Net Income to common stockholders	15,494,188					
	YTD Variance - Net Income to common stockholders	33					
							12 Months
Statement Lines	**Explanation**	**Total O&V**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Service Company costs	Changes in Service Company fees per corporate	(52,070)		-		(52,070)	(52,070)
Pensions	Increased funding due to new actuarial mortality rate tables	(33,000)				(33,000)	(33,000)
OPEB		-					-
Transportation	Lower fuel costs (cut in half)	10,000				10,000	10,000
		-					-
Water revenues	Reprofiling (Fire Service Revenue)	50,000				50,000	50,000
Water revenues	Net Income impact of not closing No Middletown in 2015	(3,000)				(3,000)	(3,000)
Other operating revenues	Other Revenue - Late Fees	30,000				30,000	30,000
		-					-
Building maintenance and services	Renegotiated savings on janitorial, waste, landscaping	5,000				5,000	5,000
Telecommunication expenses	Lower run rate	4,000				4,000	4,000
Miscellaneous expenses	Managed reductions in EA	11,100				11,100	11,100
		-					-
Customer accounting other	Customer Accounting - Collection Agency Fees	(10,000)				(10,000)	(10,000)
		-					-
Depreciation	Depreciation - Asset Retirement Project offset by higher upis	15,000				15,000	15,000
General taxes	General Tax - Higher Property Tax Accrual (Fayette school tax)	(85,000)				(85,000)	(85,000)
		-					-
Maintenance service & supplies	Targeted Spend in Maintenance	(262,000)				(262,000)	(262,000)

AMERICAN WATER

Kentucky
Dec 2015 MTD Income Statement

$ in '000s		MTD Actuals	MTD Budget	Fav/(Unfav)	% Variance	MTD Prior Yr	Fav/(Unfav)	% Variance
OPERATING REVENUES								
Water revenues	1	6,619	6,517	102	1.6%	6,546	74	1.1%
Sewer revenues	2	38	42	(4)	(9.6%)	35	2	7.0%
Other operating revenues	3	175	147	28	19.1%	185	(10)	(5.4%)
Operating revenues		**6,832**	**6,706**	**126**	**1.9%**	**6,766**	**66**	**1.0%**
OPERATIONS & MAINTENANCE EXPENSE								
Purchased water	4	13	16	4	23.2%	29	17	56.7%
Fuel and Power	5	322	289	(33)	(11.5%)	265	(56)	(21.2%)
Chemicals	6	130	113	(18)	(15.6%)	107	(23)	(21.6%)
Waste disposal	7	22	27	4	15.8%	28	6	20.3%
Total production costs		**487**	**444**	**(43)**	**(9.6%)**	**430**	**(57)**	**(13.3%)**
Salaries & Wages	8	637	654	17	2.6%	645	8	1.2%
Pensions	9	49	30	(19)	(61.7%)	21	(28)	(130.6%)
Group insurances	10	142	134	(7)	(5.5%)	123	(19)	(15.4%)
Other benefits	11	47	60	13	22.1%	62	16	25.2%
Total employee related		**874**	**878**	**4**	**0.5%**	**851**	**(23)**	**(2.7%)**
Service Company costs	12	**792**	649	**(143)**	(22.1%)	**849**	**57**	**6.7%**
Contracted services	13	156	56	(100)	(178.2%)	15	(141)	(942.1%)
Building maintenance and services	14	63	50	(14)	(27.2%)	59	(4)	(7.5%)
Telecommunication expenses	15	22	23	1	6.0%	21	(1)	(3.5%)
Office supplies & expenses	16	30	18	(12)	(68.7%)	16	(14)	(85.3%)
Employee related expense travel & entertainment	17	13	7	(5)	(68.9%)	(30)	(43)	141.4%
Miscellaneous expenses	18	107	87	(20)	(23.5%)	(16)	(123)	771.8%
Rents	19	1	3	2	64.8%	2	1	49.6%
Transportation	20	40	35	(6)	(16.0%)	8	(32)	(418.9%)
Other	21	2	3	0	18.0%	3	1	24.2%
Operating supplies & services		**434**	**281**	**(153)**	**(54.4%)**	**77**	**(356)**	**(460.1%)**
Uncollectible Accounts Exp	22	(31)	55	86	155.8%	46	77	166.9%
Customer accounting other	23	99	86	(14)	(15.8%)	82	(17)	(20.6%)
Regulatory expense	24	19	19	0	0.0%	20	1	3.1%
Insurance other than group	25	199	56	(142)	(252.1%)	104	(95)	(90.7%)
Maintenance service & supplies	26	383	147	(236)	(159.8%)	123	(260)	(211.5%)
Total operation and maintenance		**3,256**	**2,616**	**(640)**	**(24.4%)**	**2,583**	**(673)**	**(26.1%)**
Depreciation	27	1,028	1,029	1	0.1%	970	(58)	(6.0%)
Amortization	28	20	20	(0)	(1.8%)	20	(0)	(1.8%)
Removal costs	29	187	155	(32)	(20.8%)	149	(38)	(25.2%)
Depreciation and Amortization		**1,235**	**1,203**	**(32)**	**(2.7%)**	**1,139**	**(96)**	**(8.4%)**
General taxes	30	519	473	(46)	(9.7%)	483	(36)	(7.5%)
Loss (gain) on sale of assets	31	0	0	0	0.0%	0	0	0.0%
Impairment charges	32	0	0	0	0.0%	0	0	0.0%
Total operating expenses net		**5,010**	**4,293**	**(717)**	**(16.7%)**	**4,205**	**(805)**	**(19.2%)**
Operating income (loss)		**1,822**	**2,413**	**(591)**	**(24.5%)**	**2,561**	**(739)**	**(28.9%)**
OTHER INCOME (EXPENSES)								
Interest Income	33	0	0	0	0.0%	0	0	0.0%
Interest on long-term debt	34	997	1,013	16	1.6%	1,013	16	1.6%
Interest on Short-Term Bank Debt	35	11	8	(3)	(32.5%)	6	(5)	(80.6%)
Other Interest Expense	36	0	0	0	0.0%	0	0	0.0%
Interest net		**1,008**	**1,021**	**13**	**1.3%**	**1,019**	**11**	**1.1%**
Allowance for other funds used during construction	37	118	103	15	14.3%	31	87	280.2%
Allowance for borrowed funds used during construction	38	54	49	5	11.1%	14	40	280.2%
Amortization of debt expense	39	17	8	(9)	(104.9%)	8	(9)	(120.5%)
Other Net	40	60	(6)	65	(1177.7%)	(21)	80	(390.1%)
Total other income (expenses)		(793)	(883)	90	(10.2%)	(1,002)	209	(20.8%)
Income (loss) before income taxes		**1,029**	**1,530**	**(502)**	**(32.8%)**	**1,559**	**(531)**	**(34.0%)**
Provision for income taxes	41	893	617	(276)	(44.8%)	665	(228)	(34.3%)
Net income (loss)		**135**	**913**	**(778)**	**(85.2%)**	**894**	**(759)**	**(84.9%)**

Kentucky

Dec 2015 YTD Income Statement

$ in '000s		YTD Actuals	YTD Budget	Fav/(Unfav)	% Variance	YTD Prior Yr	Fav/(Unfav)	% Variance	YTD Explanation	YTD Prior Yr Explanation
OPERATING REVENUES										
Water revenues	1	88,532	86,357	2,175	2.5%	86,369	2,163	2.5%	- Due to higher demand than planned, primarily in comm and Ind	- Due to higher demand than prior year, primarily in comm and Ind
Sewer revenues	2	455	472	(17)	(3.6%)	346	108	31.3%		
Other operating revenues	3	2,280	1,989	291	14.6%	2,065	215	10.4%	- Primarily driven by late payment fees ($241k) and reconnect fees ($45k)	
Operating revenues		**91,267**	**88,819**	**2,448**	**2.8%**	**88,781**	**2,487**	**2.8%**		
OPERATIONS & MAINTENANCE EXPENSE										
Purchased water	4	251	261	10	3.7%	177	(74)	(41.5%)		
Fuel and Power	5	4,018	3,882	(135)	(3.5%)	3,814	(204)	(5.3%)		
Chemicals	6	1,610	1,534	(76)	(5.0%)	1,656	45	2.7%		
Waste disposal	7	244	320	77	23.9%	278	35	12.4%		
Total production costs		**6,123**	**5,997**	**(126)**	**(2.1%)**	**5,925**	**(197)**	**(3.3%)**		
Salaries & Wages	8	7,282	7,375	93	1.3%	6,931	(351)	(5.1%)		
Pensions	9	600	363	(237)	(65.2%)	246	(354)	(143.6%)	- Due to mortality rate adjustment	
Group insurances	10	1,669	1,610	(59)	(3.6%)	1,431	(238)	(16.6%)		
Other benefits	11	424	413	(11)	(2.7%)	369	(55)	(14.9%)		
Total employee related		**9,974**	**9,760**	**(214)**	**(2.2%)**	**8,976**	**(998)**	**(11.1%)**		
Service Company costs	12	**8,326**	**7,861**	**(465)**	**(5.9%)**	**8,776**	**449**	**5.1%**	- Due to (mgmt call center challenge, Pension, IOTG, IT, Taxes, Finance)	
Contracted services	13	1,119	735	(384)	(52.3%)	762	(357)	(46.8%)	- Due to $300k KPMG fees related to sales tax audit, plus maint pull forward	- Due to $300k PWC fees related to sales tax audit, plus maint pull forward
Building maintenance and services	14	617	593	(25)	(4.2%)	646	29	4.5%		
Telecommunication expenses	15	232	276	44	15.9%	268	36	13.4%		
Office supplies & expenses	16	245	215	(30)	(14.1%)	164	(82)	(50.0%)		
Employee related expense travel & entertainment	17	339	159	(180)	(113.4%)	137	(202)	(147.1%)	- Relocation expenses for 4Q moves	
Miscellaneous expenses	18	1,427	1,184	(243)	(20.5%)	904	(523)	(57.9%)	- Primarily sales tax audit penalties of $309K	
Rents	19	18	34	16	46.7%	32	14	43.6%		
Transportation	20	452	442	(10)	(2.2%)	502	50	9.9%		
Other	21	45	33	(12)	(35.9%)	24	(21)	(84.6%)		
Operating supplies & services		**4,494**	**3,670**	**(824)**	**(22.5%)**	**3,438**	**(1,056)**	**(30.7%)**		
Uncollectible Accounts Exp	22	906	758	(148)	(19.5%)	1,042	136	13.1%	- YTD of .94% vs. Budgeted YTD of 0.9%	- YTD of .94% vs. Prior YTD of 1.57%
Customer accounting other	23	1,100	1,002	(98)	(9.8%)	1,051	(49)	(4.7%)		
Regulatory expense	24	289	239	(50)	(21.1%)	250	(39)	(15.8%)		
Insurance other than group	25	938	677	(261)	(38.5%)	739	(199)	(27.0%)	- Due to higher than budgeted IOTG claims	
Maintenance service & supplies	26	2,013	1,738	(275)	(15.8%)	1,997	(16)	(0.8%)	- Due to maintenance pull forward	
Total operation and maintenance		**34,164**	**31,704**	**(2,461)**	**(7.8%)**	**32,195**	**(1,970)**	**(6.1%)**		
Depreciation	27	11,670	12,141	472	3.9%	11,917	248	2.1%	- Primarily due to KY asset clean-up effort in advance of Q4 rate case filing	
Amortization	28	238	234	(4)	(1.8%)	234	(4)	(1.8%)		
Removal costs	29	1,855	1,859	4	0.2%	1,780	(75)	(4.2%)		
Depreciation and Amortization		**13,763**	**14,234**	**471**	**3.3%**	**13,932**	**169**	**1.2%**		
General taxes	30	6,574	5,704	(870)	(15.2%)	5,762	(812)	(14.1%)	- Primarily sales tax audit penalties of $509K; also higher than planned property tax assessment of approx $300K	- Primarily sales tax audit penalties of $509K; also higher than planned property tax assessment of approx $300K
Loss (gain) on sale of assets	31	(33)	0	33	0.0%	0	33	0.0%		
Impairment charges	32	0	0	0	0.0%	0	0	0.0%		
Total operating expenses net		**54,468**	**51,642**	**(2,826)**	**(5.5%)**	**51,888**	**(2,580)**	**(5.0%)**		
Operating income (loss)		**36,799**	**37,177**	**(378)**	**(1.0%)**	**36,893**	**(94)**	**(0.3%)**		
OTHER INCOME (EXPENSES)										
Interest Income	33	0	0	0	0.0%	0	0	0.0%		
Interest on long-term debt	34	12,138	12,154	16	0.1%	12,132	(6)	(0.0%)		
Interest on Short-Term Bank Debt	35	99	57	(42)	(75.1%)	51	(48)	(93.8%)		
Other Interest Expense	36	272	0	(272)	0.0%	0	(272)	(23214689.7%)		
Interest net		**12,508**	**12,210**	**(298)**	**(2.4%)**	**12,183**	**(325)**	**(2.7%)**		
Allowance for other funds used during construction	37	770	710	59	8.3%	317	453	142.8%		- AFUDC on $15m Filter Building Project
Allowance for borrowed funds used during construction	38	351	334	17	5.0%	145	206	141.5%		
Amortization of debt expense	39	105	98	(8)	(7.7%)	91	(14)	(15.9%)		
Other Net	40	173	(72)	245	(341.1%)	(72)	246	(339.3%)	- Unplanned M&J revenue	- Unplanned M&J revenue
Total other income (expenses)		(11,319)	(11,335)	16	(0.1%)	(11,884)	564	(4.8%)		
Income (loss) before income taxes		**25,480**	**25,842**	**(362)**	**(1.4%)**	**25,009**	**471**	**1.9%**		
Provision for income taxes	41	10,763	10,347	(416)	(4.0%)	9,249	(1,514)	(16.4%)	- Due to write off of dated sales tax receivable previously on mgmt judgements	
Net income (loss)		**14,716**	**15,494**	**(778)**	**(5.0%)**	**15,760**	**(1,043)**	**(6.6%)**		

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 32

Description of Filing Requirement:

Independent Auditor’s Annual Opinion Report and any Written Findings of Material Weaknesses in Internal Controls

Response:

Please refer to Exhibit 28 - Page 91 for the Independent Auditor’s 2014 Annual Opinion Report. There were no findings of material weakness in internal controls.

For electronic version, see KAW_APP_EX32_012916.pdf for this document and KAW_APP_EX28_012916.pdf for the Independent Auditor’s 2014 Annual Opinion Report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows, and of changes in stockholders' equity present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2015

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 33

Description of Filing Requirement:

Summary of last depreciation study

Response:

A depreciation study was prepared by Gannett Fleming and is sponsored by John Spanos in this case. Please refer to Mr. Spanos' testimony and exhibits filed in this case.

For electronic version, see KAW_APP_EX33_012916.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-0418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 34

Description of Filing Requirement:

List of Software, Programs and Models Used

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX34_012916.pdf.

A list of all commercially available or in-house developed computer software, programs and models used in the development of the schedules and workpapers associated with the filing of the utility's application are listed below.

SOFTWARE	**DESCRIPTION**
Microsoft Office	MS Office is a suite of personal computer applications designed to integrate with each other and provide a similar interface to the data maintained within each application. Applications included in the MS Office suite are MS Excel, MS Access, and MS Word. MS Office is manufactured by Microsoft Corporation.
MS Excel	MS Excel was used by the Company to formulate their budget information and was used to complete the computation of water utilization projections and the cost of service allocation study. MS Excel is an electronic spreadsheet application manufactured by Microsoft Corporation.
MS Access	MS Access was used by the Company to manage, organize, and control large amounts of data that can be formatted into a data base file. MS Access is an electronic data base management system manufactured by Microsoft Corporation.
MS Word	MS Word was used to prepare testimony and other miscellaneous schedules. MS Word is an electronic word processing application manufactured by Microsoft Corporation.
Adobe Acrobat	Acrobat was used by the Company to create and manage Portable Document Format (PDF) files. Acrobat is a universal document exchange application and is manufactured by Adobe Systems Incorporated.
Hyperion	Hyperion is used by the Company to create balance sheets, income statements and cash flow analyses and is used to consolidate financial data for financial reporting. Hyperion is a business performance and business intelligence application manufactured by Hyperion Solutions Corporation.

SOFTWARE	**DESCRIPTION**
PeopleSoft World FIS	PeopleSoft World (formerly J. D. Edwards Financials) is used by the Company as an enterprise financial application including general ledger, accounts payable, procurement, materials inventory, asset management, payroll and human resource administration. PeopleSoft World is manufactured by PeopleSoft Incorporated.
Orcom's E-CIS	E-CIS is used by the Company as an enterprise customer information system for retaining water consumptions, billing, collecting, and tracking customer's service work. E-CIS is an electronic customer information system application and is owned by Alliance Data Systems.
PowerPlant	PowerPlant is a financial asset lifecycle management software system designed specifically for the utility industry. PowerPlant covers capital budgeting, project accounting (including overhead and AFUDC calculations), fixed asset accounting (including book and tax depreciation), property tax accounting, and income tax accounting (including deferred tax and tax provision).

All Active Enterprise Applications & Modules by Process

Status	Active

Release	Sub Process Area	Software Mfg Vendor	Application Name	Module Name	Description
All	**Enterprise Collaboration**	ITS	**American Water**	Intranet	AW's internal Intranet Web Site for all employees
				Internet	AW's external Intrenet Web Site for the public
				myJobTools	AW's Application Portal to launch SAP and non SAP applications
	Enterprise data management	SAP	**BOBJ-EIM**	Data Services	delivers an enterprise-class solution for data integration,data quality, data profiling, and text analysis. The software allows you to integrate,
				Info Steward -Metapedia	The Metapedia module of SAP BusinessObjects Information Steward allows you to implement a business glossary of terms related to your business data and organize the terms hierarchically
				Info Steward -Data Insight	A Data Insight project is a collaborative workspace for data stewards and data analysts to assess and monitor the data quality of a specific domain and for a specific purpose
				Info Steward - Metadata Mgt	The Metadata Management module of SAP BusinessObjects Information Steward provides an integrated view of metadata and their relationships across all of the products used in a Business Intelligence Product.
				Data Quality Management	
		USPS	**USPS**	Address Validation	outside service that validates address information.
	Enterprise Reporting and	SAP	**BOBJ-BI**	BI Workspace	SAP BusinessObjects Business Intelligence Workspace
				Web Intelligence	SAP BusinessObjects Web Intelligence
				Analysis, Office	SAP BusinessObjects Analysis Edition for Office
			BW	BW	Business Warehouse
	Enterprise Role and Access Management	ITS	**Identity and Access Management**	IAM	IAM is an automated access control and monitoring system. In its initial implementation it will automate the provisioning and de-provisioning of access to all SOX critical systems: UAA, ECIS, JDE, Active Directory, Lotus Notes, PowerPlant, and Hyperion. It also monitors whether an individual user is requesting sensitive entitlements that in combination of other entitlements they already posses, might constitute a Segregation of Duties (SOD) conflict.
	Records and Document management	OpenText	**Streamserve**	Persuasion	SAP Document Presentment by OpenText (AKA Advanced Endorsed Business Solution for SAP)
			Document Access	Archive	OpenText Document Management (Imaging)
	Tool	OpenText	**RightFax**	Fax Server	OpenText Document Management (Imaging)
		Software AG	**ARIS**	Perf Mgt	ARIS Process Performance Management
				Designer	ARIS Business Designer
				Publisher	ARIS Business Publisher
				Optimization	ARIS Process Optimization
				Architect	ARIS Enterprise Modeling
	(blank)	SDT	**GE Picture Perfect**	Photos	System for our AW badges for photos
		Videx	**CyberKeys**	Badge	System for our AW Badges - electronic keys
HTR	**HR administration**	SAP	**ECC**	HCM-PA-AS	Personnel Administration - HR Administration
	Workforce learning and	Ancile	**uPerform**	uPerform	SAP uPerform by Ancile
		SuccessFactors2	**My Career Solution (BizX)**	Development	SuccessFactors Business Execution Suite - Development2
				Goal Mgt	SuccessFactors Business Execution Suite - Goal Management2
				Perf Mgt	SuccessFactors Business Execution Suite - Performance Management2
				Learn	SuccessFactors Business Execution Suite - Learn
	Workforce maintenance and	Oracle	**JDE**	Corp HR	Legacy HR module
		SAP	**ECC**	ESS	Employee Self Service
				HCM-OM	Organization Management
				HCM-PA	Personnel Administration
				MSS	Manager Self Service
		SuccessFactors2	**My Career Solution (BizX)**	Employee Profile	SuccessFactors Business Execution Suite - Employee Profile2
	Workforce planning and	Adobe	**SAP Adobe**	ADS	Adobe Document Services
		Nakisa	**Visualization**	Planning	Nakisa Organizational Chart Planning
				SOVN	SAP Visualization by Nakisa
		Salary.com	**Salary.com**	Salary.com	Website that receives our employee, job information to compare salaries

HTR	**Workforce planning and employment**	Talx	**Talx**	Employment	Employment verification and unemployment claims. Employment and Income verification transmission which allows employers and employees to verify payroll information.
		West Virginia	**West Virginia**	New hire	New hire, employee file feed to state of west virginia
		SuccessFactors2	**My Career Solution (BizX)**	Recruiting	SuccessFactors Business Execution Suite - Recruiting2
				Succession Planning	SuccessFactors Business Execution Suite - Succession Planning2
	Workforce time, compensation and benefits	Accenture	**ACN Payroll**	A&C	Audit & Compliance: check data for Payroll Runs
				DCM	Data Comparison: tool to support payroll test (non prod)
		ADP	**ADP**	iPay	Provider of our payroll and pay check distribution
		Aetna	**Aetna**	Dental	Benefit Provider for Dental
		Alere	**Alere**	Healthy Solutions	Benefit Provider for Health and Wellness
		BSI	**BSI**	Tax Factory	BSI Payroll Tax Factor
				BSI.com	Website that is a provider of our payroll tax information and rules
		Carebridge	**Carebridge**	EAP	Benefit Provider for Employee Assistance Plan
		Conexis	**Conexis**	COBRA	Website to manage COBRA payments
		eTrade	**eTrade**	Stock Option	System to manage AWK stock options
		EyeMed	**EyeMed**	Vision	Benefit Provider for Eye
		Horizon	**Horizon**	Bluecross	Benefit Provider for Medical
		Merrill Lynch	**Merrill Lynch**	401k	Benefit Provider for 401k
		MetLife	**MetLife**	Disablity	Website that manages STD, LTD
		Oracle	**JDE**	Timekeeper	Legacy HR's Time Entry
		SAP	**ECC**	HCM-PA-BN	Benefits Management
				PY	Payroll
		Towers Watson	**Towers Watson**	Towers Watson	Benefit Provider
		SuccessFactors2	**My Career Solution (BizX)**	Compensation	SuccessFactors Business Execution Suite - Compensation2
	(blank)	Adobe	**Captivate**	Captivate	Captivate is an elearning authoring software usded to create interactive eLearning content. Used by ITS
PTB	**Perform and complete work**	Esri	**ArcGIS**	Geocode	Esri GIS module to provide Geocodes
				Route	Esri GIS module to provide Routes
				ArcMap	Esri GIS module to view maps
				ArcCatalog	ArcCatalog is a geodatabase administration application in Esri's ArcGIS suite. It provides an integrated and unified view of all the data files, databases, and ArcGIS documents.
				ArcSDE	ArcSDE (Spatial Database Engine) is a server software from Esri that enables the usage of Relational Database Management System for spatial data. SQL server in our case.
				ArcGIS Server	Esri GIS - Main GIS Workstation to Create, View and Update Maps
	Plan and schedule projects /	SAP	**ECC**	PM	Plant Maintenance
				PS	Project Systems
PTP	**Invoice processing**	OpenText	**ICC**	OCR	OpenText Invoice Capture Center Optical Character Recognition
			VIM by Opentext	Invoice Management	SAP Vendor Invoice Management by OpenText
		PNC	**ActivePay**	pCard	PNC external website for employees to process and approve pCard charges.
				Ghost Card	Process provides Suppliers to be paid by credit card. Daily interfaces to PNC which is converted into EDI format and passed along to VISA.
			Pinacle	Payables	PNC payable service website for use of possible payments outside of SAP system. ACH, Wires, Check Management, Positive Pay
		SAP	**ECC**	FI-AP	Accounts Payable
	Material and Inventory	SAP	**ECC**	LE-WM	Warehouse Management
				LO	Logistics
				MM-IM	Inventory Management
				QM	Quality Management
	Procurement	SAP	**ECC**	MM-PUR	Purchasing
			SRM	MDM	Service and Product catalog
				Plan Driven Procurement	Plan Driven Procurement
				Self-Service Procurement	Self-Service Procurement
			tRex	tRex	SAP Search Engine

PTP	**Procurement**	Taulia	**Supplier Portal**	Vendor Management	The Taulia portal facilitates the transmission of purchase orders and invoices between suppliers and their customers. It allows us to communicate with many suppliers through a single connection to our SAP system.
	Procurement reporting and Sourcing	Sabrix	**Sabrix**	Reporting	Sabrix Reporting application
		SAP	**SRM**	CM	Contract Management
				Spend analysis	Spend Analysis
				Strategic Sourcing	Strategic Sourcing with eBiding engine
				SUS	SUS Supplier Portal - Supplier Collaboration - Backend
				SUS Portal	SUS Supplier Portal - Supplier Collaboration - Frontend
RTC	**Handle Customer Interaction**	ITS	**IVR**	IVR	Interactive Voice Response system for customers
			H2O Online	IDA	Knowledge system for business rules at CSC. Call handling application that extends WebDash application.
			My H2O Online	WSS	This is American Water's external facing self service web site for customers. Customers can register for an account and do basic maintenance functions. Functionality includes: Pay Bills, Turn On and Turn Off Service, View Account Details, View Bill Details, View Usage, View Transaction Activity, Add Third Parties, Maintain Basic Account Information.
		Lexis/Nexis	**Lexis/Nexis**	Account Validation	
		SAP	**CRM**	CTI	Customer Relationship Management CTI/IVR
				Service	Customer Relationship Management Service
				IC	Customer Relationship Management Interaction Center - Customer Service/Alerts/Scripting
		NICE	**NICE Recording eXpress**	DRS	Digital Recording System for call recording for customer calls to the call center
		Avaya	**CMS**	CMS	Call Management System used at the call center
		ECN	**Code Red**	Notifier	Notification Solution for Enterprise-wide Alerting and Mobilization. The various states use this application to place mass call notifications to our customers. System used to automatic dial customers for outage
	Perform and complete work	Click	**SAP Workforce**	Mobile	Mobile by ClickSoftware, for all types of field work and users
	Plan and schedule projects /	Click	**SAP Workforce**	Schedule	SAP Workforce Scheduling and Optimization by ClickSoftware
	Schedule Order	Click	**SAP Workforce**	Schedule	SAP Workforce Scheduling and Optimization by ClickSoftware
	Work the Order	Click	**SAP Workforce**	Mobile	Mobile by ClickSoftware, for all types of field work and users
	(blank)	ITS	**H2O Online**	V1	A web application tracks Call center employees and their time, master call out list, etc
				New Alerts DB	IVR uses to communicate main breaks, boil water adviseries, etc
				External Payment Location	Desktop application written in VB.NET with AS400 based stored procedures to process files sent by the external companies for the updated payment locations. The data is stored on AS400 and feeds H2O WSS and IDA
			Complaints Investigation	CID	Complaints handling application. Used to track and report customer complaints that require investigation. .Net app for tracking Commissions complaints
			My H2O Online	CST	This is the internal site used by CSR's to reset passwords and resend registrastion emails for web self service. This is the companys administative companion site for web self service.
			PA PUC	PA PUC Complaints	
				PA PUC Reports	
		Verint	**Impact 360**	WorkForce Management	Call Center Agents - Workforce Management
RTR	**Accounting**	SAP	**ECC**	FI-GL	General Ledger
				FI-New Ledger	This module is part of FI-GL and allows us to keep multiple ledgers for different accounting rules
		Trintech	**Cadency**	Close	AKA Movaris Close Cockpit to help with the financial close process.
				Account Reconciliation	Account Reconciliation by Trintech (AKA AssureNet GL)
		Ryan	**Tracker**	Unclaimed Property	Tracker® PRO Unclaimed Property Compliance Software
	Capital project accounting	PowerPlan	**Powerplant**	CR	Charge Repository and CR Allocations
				PS	Project System - Project and Work Management
				AM	Asset Management (CPR Subledger, NBV)
				Dep	Depreciation Forcast Module
		SAP	**ECC**	CO-EC-PCA	Profit Center Accounting
				CO-OM	Overhead Cost Controlling (excluding PCA)
	Cash Management	Mellon	**Mellon**	Bank	Bank used for Payments for payables and receivables across AW Regulatory

RTR	**Cash Management**	SAP	**ECC**	FI-BL	Bank Accounting
	Financial planning, consolidaton and reporting	Oracle	**Hyperion**	Planning	Hyperion Planning module for budget Planning and Forecast process; including entry forms
				Consolidation	Handles consolidation of general ledgers (aka Financial Management module)
				Essbase	Hyperion OLAP multidimensional data repository to support reporting
				DQ Management	Financial Data Quality Management - ERPI Application used to load data into Hyperion
				SmartView	Provides a common Microsoft Office interface for Oracle's Enterprise Performance Management (EPM) and Business Intelligence (BI)
				Reporting & BI	Hyperion reporting repository for KPI and dashboards Reports for consolidated financials
		PowerPlan	**Powerplant**	Budget	Budget Module
	General Tax accounting	PowerPlan	**Powerplant**	PT-prop	PowerTax - Property Tax
		Sabrix	**Sabrix**	Use Tax	Sabrix Use Tax: Calculate tax for PTP for POs, Invoices and pCards based on use for a specific state/zip and will determine if accrual needed
	Miscellaneous invoicing	SAP	**ECC**	FI-AR	Accounts Receivable
				SD	Sales and Distribution
	Treasury management	PNC	**PNC Banking**	TMS	Treasury Management System: PNC Bank used for Treasury Management and interface with SAP Banking and Treasury Workstation
		SAP	**ECC**	TR-CM	Treasury and Cash Management
Tech	**Tool**	HP	**ALM - Test Management**	Load Runner	HP Load Runner for performance test
				Quality Center	SAP Quality Center by HP
		SAP	**Tools**	SapRouter	Sap Router with Solution Manager
				SAPmail	SAP Internal SMTP mail service
				TAO	SAP Test Acceleration Optimization
			Solution Manager	SolMan	Solution Manager
			Netweaver	EP	Netweaver for Portal used for ESS/MSS, Supplier, Learning…
				PI	Netweaver for PI
				SolMan	Netweaver for SolMan
				BW	Netweaver for BW
				GRC	Netweaver for GRC
				CRM	Netweaver for CRM
				ECC	Netweaver for ECC
				SRM	Netweaver for SRM
		UC4	**Automation Engine**	Batch Scheduler	Enterprise Batch Scheduler for SAP and Non SAP jobs
		Mcafee	**Antivirus**	ePO	ePolicy Orchestrator: Manages the Antivirus Policies for our McAfee antivirus software for the Desktops
		Ipswitch	**MOVEit**	Central	System to System File transfers
				DMZ	Adhoc File Transfers for the business to use to transfer large files to third party
		BMC	**Remedy IT Service**	Asset Management	Application used to enter IT asset inventory
				ADDM	Automated tool to discover IT assets on the network.
		Avatier	**Password Station**	(blank)	(blank)
	Workforce time, compensation and benefits	Accenture	**ACN Payroll**	C&T	Clone & Test: Create data to support Payroll tests(non prod)
MTC	**Billing & Invoicing**	Basis	**Basis**	BDeX	Business Data Exception - to identify what data issues are causing problems in your business processes
		ITS	**My H2O Online**	OIR	
		OpenText	**Streamserve**	Story Teller	
		Sabrix	**Sabrix**	Sales Tax	Sabrix Sales Tax: Calculate Sales Tax for CIS bills based on rules by state/zip
		SAP	**ECC**	CR&B-B&I	Customer Care and Service Billing & Invoicing
		AWE	**Aptify**	CMS	CMS Customer Management System - Primary system used by AWE Home Owner Service to manage customers and customer relationships performing case management as well as campaign managagement services
		Striata	**eBilling**	eMail	External service that eMails out a link to our electronic bill image to customers
		TransCentra	**Payments**	IDR	Distributed Print Service - Bill Print Service provided by TransCentra
	Customer, and meter device management	ITS	**Meter Shop**	NJ/EW Meter Shop	Tracks meter related information including Test and Repair Data. Provides a facility to enter meters into the ECIS meter inventory with validation beyond what base ECIS. Allows for reporting on collected

MTC	**Customer, and meter device management**	ITS	**Meter Shop**	MO Meter Shop	Tracks meter related information including Test and Repair Data. Provides a facility to enter meters into the ECIS meter inventory with validation beyond what base ECIS. Allows for reporting on collected
		SAP	**ECC**	CR&B-DM&M	Customer Care and Service Device management & Meter Reading
	FICA and Cash operations	SAP	**ECC**	CR&B-FiCA	Financial Contract Accounting
	Meter reading	iTron	**Meter Read**	MV-RS	Collects meter readings on demand as the mobile unit or meter reader a which are used to bill water consumption. Mobile (Drive-by/Walk-by) System
				AMI/Leak Detection	Collects meter readings multiple times a day which are used to bill water consumption. Fixed Network System. Also gathers acoustical information for use in identifying leaks.
		Neptune	**Meter Read**	ARB N-Sight	Collects meter readings on demand as the mobile unit or meter reader a which are used to bill water consumption. Mobile (Drive-by/Walk-by) System
		Fathom	**Fathom**	MDM	Total Water Enterprise is the primary application used for reading meters and keeping a history of all our meter reads. MDM is part of Fathom's Total Water Platform and is externally hosted
	Payment processing and	GC Services	**GC Services**	Collections	third party collection Agency for 1st party collections
		EOS	**EOS**	Collections	third party collection Agency for 1st party collections
		Paymentus	**Paymentus**	Payment Processing	Allows external customers to pay their bills safely online
Other	**Enterprise Controls**	SAP	**GRC**	PC	SAP Governance Risk and Compliance - Process Control
	Enterprise Reporting and	ITS	**Org Unit Maintenance**	OUM	(blank)
	Enterprise Role and Access Management	SAP	**GRC**	AC	SAP Governance Risk and Compliance - Access Control
	Sourcing	ITS	**Contract Management**	CM	Existing Contract Management system for legal and AW to manage contracts. System was built using Sharepoint
	Tool	ITS	**EPM**	Project Tracking	Enterprise Project Management: MS Project tracking system for ITS projects used to track projects and resources
				Project Reporting	Enterprise Project Management: Reporting system for MS Project tracking system for ITS projects used to track projects and resources
			Risk Matrix	RM	Calculates Risk Matrix as part of the Change Request process
			Service Management	Service Management	(blank)
	(blank)	SalesForce.com	**SalesForce**	Sales Cloud	Sales Force automation for Business Development team in the states
		PA PUC	**PUC**	EX	PUC Exchange: A web application Judy Jordan's team is using for review and approval/ processing of the PUC related document sent and receive via FTP in the form of XML
EH&S	**Lab testing and reporting**	ChemWare	**Horizon**	LIMS	The Laboratory Information Management System (LIMS) is the software used to track clients, samples, results and produce final reports.Software used by Lab
		HIS	**ESS Training**	Compliance	Provides tracking for Training Course information, overview, registration, attendance and certification.
		Nugenesis	**NuGenesis SDMS**	Vision	Application-independent software and database platform that can be used to create a common electronic repository for scientific information enabling you to unify, share, and fully utilize scientific data generated from the vast array of laboratory applications with a seamless integration of data with Horizon LIMS.
		Labtronics	**LimsLink**	LimsLink	Used for interfacing with the instruments in a laboratory.
		Actuate	**Actuate**	Actuate	Application used for Reporting of Horizon LIMS data.
		PCLtools	**PCLPrint**	PCLPrint	A 3rd party utility software applicatio supported by ChemWare used to print records into NuGenesis.
		SimpleIndex	**SimpleIndex**	SimpleIndex	SimpleIndex software is used as part of the file capture component of NuGenesis SDMS
		BrooksNet	**RPM**	RPM	Remote Print Manager A 3rd party utility software application . AW uses RPM as a way to copy print files (Archive to Folder) to an AW shared folder so that it can be picked up and processed into NuGenesis SDMS.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 35

Description of Filing Requirement:

Affiliate, General or Home Office Allocations

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX35_012916.pdf

KENTUCKY-AMERICAN WATER
CASE NO.
FORECASTED TEST PERIOD FILING REQUIREMENTS
AFFILIATE, GENERAL OR HOME OFFICE ALLOCATIONS

Kentucky-American Water Company (KAWC) has amounts charged and allocated to it by American Water Works Service Company, Inc. (Service Company).

American Water Works Service Company, Inc.

	Amounts Allocated/ Charged to KAWC (000)
2011	$7,751
2012	$9,115
2013	$9,164
2014	$8,776
2015	$8,326
Base Period	$8,166
Forecasted Period	$8,604

A contract between KAWC and the Service Company provides detailed language outlining the methodologies utilized in the allocation of Service Company charges to Kentucky-American Water. The contract became effective October 1, 1989.

The methods used to allocate charges to KAWC during the base period and the forecasted test period was based on this Service Company contract. Service Company costs are allocated to KAWC based upon actual time charged or allocated by Service Company employees as reflected in their daily timesheets. All costs of Service Company employees that are identified as related exclusively to KAWC are charged directly to KAWC. Service Company costs incurred in rendering services to KAWC, and other operating companies, are allocated among the group of companies receiving the service rendered. The allocation of these costs is based on the number of customers served at the immediate preceding calendar year end. Appropriate overhead costs actually incurred by the Service Company are added to the employee costs. Overhead costs include support personnel (secretary, mailroom clerk, telephone operator, etc.), employee benefits (group insurance, pensions, payroll taxes, etc.), building costs (rent, depreciation, maintenance, etc.), and other items (stationary, postage, legal fees, etc.). These overhead costs are assigned to each of the affiliated companies based on the labor cost dollars that were either directly billed or allocated using the formula allocation.

Service Company Charges in Rate Filings

The Service Company charges to the various regulated subsidiaries for the services rendered reflect the contractual arrangement in the current Service Company Agreement. However, even in those jurisdictions which must approve the Service Company Agreement (i.e., because it is an “affiliate arrangement”), the regulatory commissions still assert that they have the right to approve the amount and nature of those charges in rate filings. As a consequence, as the regulated company prepares its rate filing, Rate Department personnel review the statements and supporting information for the Service Company activities charged to the Company. This contractual agreement is also subject to review by the outside auditors. During the course of these pre-filing reviews, any charge or allocation not appropriate for rate recovery is adjusted prior to the filing of the case. Thereafter, these charges are also reviewed by the regulatory staffs during their audits or reviews of the reasonableness of those charges. The first contract, labeled “1971 Agreement” was in force until September 30, 1989. The second contract, labeled “1989 Agreement” became effective October 1, 1989. Both contracts provide detailed language outlining the methodologies utilized in the allocation of Service Company charges to Kentucky-American Water.

The methods used to allocate charges to KAWC during the base period and the forecasted test period are based on the 1989 Service Company contract.

Annual Business Plan

Each year, each office and department of the Service Company is required to develop a Business Plan for the following year. During the year, each month of the business plan versus actual performance of the various Service Company offices and departments is reviewed.

Annual business plan guidelines are prepared for various areas of forecasting for the future such as for labor increases, group insurance, risk insurance, office space costs, etc. These guidelines are then followed by each office and department in the preparation for the annual business plan for the following year.

All of this is done with an eye toward providing the most professional, efficient services possible for the regulated company at the lowest reasonable cost.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 36

Description of Filing Requirement:

Cost of Service Study

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX36_012916.pdf.

Exhibit No. 36
Witness: P. R. Herbert

KENTUCKY AMERICAN WATER COMPANY

Lexington, Kentucky

COST OF SERVICE

ALLOCATION STUDY

AS OF AUGUST 31, 2017

AND

PROPOSED CUSTOMER RATES

GANNETT FLEMING VALUATION AND RATE CONSULTANTS, LLC

Harrisburg, Pennsylvania

Gannett Fleming

Excellence Delivered **As Promised**

January 14, 2016

Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502

Attention Mr. Nick Rowe, President

Ladies and Gentlemen:

Pursuant to your request, we have conducted a cost of service allocation study based on pro forma revenue requirements for the test year ending August 31, 2017, and have prepared proposed rate schedules designed to produce the pro forma revenue requirements.

The attached report presents the results of the study, as well as supporting schedules which set forth the detailed cost allocation calculations. Schedule A on page 6 presents a comparison of the cost of service by customer classification with the pro forma revenues produced by each classification under present and proposed rates.

Respectfully submitted,

GANNETT FLEMING VALUATION
AND RATE CONSULTANTS, LLC

Paul R Herbert

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PART I. INTRODUCTION

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE ALLOCATION STUDY
AS OF AUGUST 31, 2017
AND PROPOSED CUSTOMER RATES

PART I. INTRODUCTION

PLAN OF REPORT

The report sets forth the results of the cost of service allocation study as of August 31, 2017, prepared for Kentucky American Water Company. Part I, Introduction, contains statements with respect to the basis of the study, the procedures employed, and a summary of the results of the study. Part II, Cost of Service by Customer Classification, presents detailed schedules of the allocation of costs to customer classifications, as well as the bases for the allocations. Part III, Proposed Customer Rates, sets forth a comparison of the present and proposed rate structures, and the development of the proposed service charges.

BASIS OF THE STUDY

The purpose of the study was to allocate costs to several customer classifications based on considerations of quantity of water consumed, variability of rate of flow, and costs associated with metering, billing and accounting. The allocation study was based on recognized procedures for allocating the several categories of costs to customer classifications in proportion to each classification's use of the facilities, commodities and services which entail the total cost of providing water service.

ALLOCATION PROCEDURES

The allocation study was based on the Base-Extra Capacity Method for allocating costs to customer classifications. The method is described in the 2012 and prior editions of the Water Rates Manual, published by the American Water Works Association. The four basic categories of cost responsibility are base, extra capacity, customer and fire protection costs. The following discussions present a brief description of these costs and the manner in which they were allocated.

Base Costs are costs that tend to vary with the quantity of water used, plus costs associated with supplying, treating, pumping and distributing water to customers under average load conditions, without the elements necessary to meet peak demands. Base costs were allocated to customer classifications on the basis of average daily usage.

Extra Capacity Costs are costs associated with meeting usage requirements in excess of the average. They include operating and capital costs for additional plant and system capacity beyond that required for average use. The extra capacity costs in this study are subdivided into costs necessary to meet maximum day extra demand and costs to meet maximum hour extra demand. The extra capacity costs were allocated to customer classifications on the bases of each classification's maximum day and hour usage in excess of average usage. (Extra capacity costs related to fire protection are allocated directly to the fire protection classifications.)

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operating and capital costs related to meters and services, meter reading costs, and billing and collecting costs. The customer costs were allocated on the bases of the relative cost of meters and services and the number of customers.

Fire Protection Costs are costs associated with providing the facilities to meet the potential peak demand of fire protection service. Fire protection costs are subdivided into costs to meet Public Fire Protection and Private Fire Protection demands. Operating and capital costs for hydrants were allocated directly to the Public Fire Protection classification. The extra capacity costs assigned to fire protection service were allocated to Public and Private Fire Protection on the basis of the total relative demands of the hydrants and fire service lines.

RESULTS OF STUDY

The results of the cost of service allocation study are set forth in Part II. The data summarized for each district in Schedule A, Comparison of Cost of Service with Revenues Under Present and Proposed Rates for the Test Year Ended August 31, 2017, constitute the principal results of the cost allocation studies and subsequent rate designs.

The cost of service by customer classification shown in column 2 of Schedule A is developed in Schedule B, Cost of Service for the Twelve Months Ended August 31, 2017, Allocated to Customer Classifications. The allocation of the total cost of service to the several customer classifications was performed by applying the allocation factors referenced in column 2 of Schedule B to the cost of service set forth in column 3. The bases for the allocation factors are presented in Schedule C.

Schedule D sets forth the experienced average day and maximum day system sendout and the maximum day ratios from 2000 through 2014. Schedule E presents the basis for allocating demand related costs of fire service to private and public fire protection classifications.

DESIGN OF PROPOSED RATES

A comparison of the present and proposed rate structures is presented in Schedule G of Part III of the report. The proposed rates maintain the existing rate structure consisting of service charges by meter size applicable to all classes and single-block consumption charges for each classification. The service charges were developed on Schedule F, based on the cost of service related to meters, services, billing and collecting including meter reading. The overall increase to the service charges is approximately 18.9%.

The consumption charges as well as private and public fire rates were increased so that the revenues under proposed rates would move toward the indicated cost of service as shown in Schedule A.

KENTUCKY AMERICAN WATER COMPANY

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED AUGUST 31, 2017

	Cost of Service		Revenues, Present Rates		Revenues, Proposed Rates		Proposed Increase	
Customer Classification	Amount (Schedule B)	Percent	Amount	Percent	Amount	Percent	Amount	Percent Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Residential	$ 55,923,037	56.5%	$ 47,597,938	55.6%	$ 55,922,389	56.5%	$ 8,324,451	17.5%
Commercial	23,691,015	23.9%	21,253,039 (a)	24.8%	24,009,706 (a)	24.3%	2,756,667	13.0%
Industrial	3,421,732	3.5%	2,540,483	3.0%	3,097,546	3.1%	557,063	21.9%
Public Authority	6,958,932	7.0%	5,904,766	6.9%	6,951,883	7.0%	1,047,117	17.7%
Sales for Resale	1,892,980	1.9%	1,774,742	2.1%	1,886,689	1.9%	111,947	6.3%
Private Fire Service	2,418,315	2.5%	2,699,847	3.2%	2,780,586	2.8%	80,739	3.0%
Public Fire Service	4,658,819	4.7%	3,740,506	4.4%	4,315,968	4.4%	575,462	15.4%
Total Sales	98,964,830	100.0%	85,511,321	100.0%	98,964,767	100.0%	13,453,446	15.7%
Other Revenues	2,839,675		2,839,675		2,839,675		-	0.0%
Total	$ 101,804,505		$ 88,350,996		$ 101,804,442		$ 13,453,446	15.2%

(a) Includes Miscellaneous Water Sales.

PART II. COST OF SERVICE BY CUSTOMER CLASSIFICATION

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection	
									Private	Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	OPERATION AND MAINTENANCE EXPENSES									
	SOURCE OF SUPPLY EXPENSES									
	-OPERATION-									
610.1	Purchased Water	1	230,255	113,078	70,803	12,549	24,246	8,174	645	760
615.1	Purchased Power	1	197,892	97,185	60,852	10,785	20,838	7,025	554	653
675.1	Miscellaneous Expenses	2	1,276	653	391	63	124	41	2	2
675.1	Contracted Services	2	682	349	209	33	66	22	1	1
675.1	Security	2	21,839	11,179	6,685	1,072	2,127	699	35	41
675.1	Water & WW SS	1	103,046	50,606	31,687	5,616	10,851	3,658	289	340
	Total Operation		554,990	273,051	170,626	30,118	58,252	19,619	1,525	1,798
	-MAINTENANCE-									
601.2	Labor	2	-	-	-	-	-	-	-	-
620.2	M&S Maint	2	44,298	22,676	13,560	2,175	4,315	1,418	71	84
	Total Maintenance		44,298	22,676	13,560	2,175	4,315	1,418	71	84
	Total Source of Supply		599,288	295,727	184,186	32,293	62,567	21,036	1,596	1,882
	POWER AND PUMPING EXPENSES									
615.1	Purchased Power	1	629,805	309,297	193,665	34,324	66,318	22,358	1,763	2,078
	Total Operation		629,805	309,297	193,665	34,324	66,318	22,358	1,763	2,078
	-MAINTENANCE-									
601.2	Labor	6	0	0	0	0	0	0	0	0
	Total Maintenance		0	0	0	0	0	0	0	0
	Total Power and Pumping		629,805	309,297	193,665	34,324	66,318	22,358	1,763	2,078

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection	
									Private	Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	WATER TREATMENT									
	-OPERATION-									
601.3	Supervision and Engineering	2	173,468	88,798	53,098	8,517	16,896	5,551	278	330
601.3	Labor Expense	2	2,398,530	1,227,808	734,190	117,768	233,617	76,753	3,838	4,557
618.3	Chemicals	1	1,768,379	868,451	543,777	96,377	186,210	62,777	4,951	5,836
615.3	Purchased Power	1	3,295,455	1,618,398	1,013,352	179,602	347,011	116,989	9,227	10,875
620.3	M&S Operation	2	27,571	14,114	8,439	1,354	2,685	882	44	52
636.3	Contracted Services	2	29,764	15,236	9,111	1,461	2,899	952	48	57
635.3	Contracted Services - Lab Testing	2	55,865	28,597	17,100	2,743	5,441	1,788	89	106
675.3	Misc Operating Expense	2	23,595	12,078	7,222	1,158	2,298	755	38	45
675.3	Lab Supplies	2	84,040	43,020	25,725	4,126	8,185	2,689	134	160
675.3	Waste Disposal	1	377,380	185,331	116,044	20,567	39,738	13,397	1,057	1,245
675.3	Overnight Shipping	2	9,947	5,092	3,045	488	969	318	16	19
675.3	Office Supplies and Uniforms	2	7,905	4,047	2,420	388	770	253	13	15
675.3	Electricity WT	2	9,430	4,827	2,887	463	919	302	15	18
675.3	Janitorial WT	2	7,087	3,628	2,169	348	690	227	11	13
675.3	Trash Removal WT	2	12,898	6,602	3,948	633	1,256	413	21	25
675.3	Rents WT	2	11,664	5,971	3,570	573	1,136	373	19	22
675.3	Telephone WT	2	16,739	8,569	5,124	822	1,630	536	27	32
675.3	Cell Phone WT	2	6,065	3,105	1,856	298	591	194	10	12
	Total Operation		8,315,781	4,143,671	2,553,078	437,687	852,943	285,149	19,835	23,418
	-MAINTENANCE-									
601.4	Supervision and Engineering	2	0	-	-	-	-	-	-	-
601.4	Labor	2	218,739	111,973	66,956	10,740	21,305	7,000	350	416
620.4	Misc Maint	2	39,472	20,206	12,082	1,938	3,845	1,263	63	75
675.4	M&S Maint WT	2	381,174	195,123	116,677	18,716	37,126	12,198	610	724
675.4	Amort Def Maint WT	2	59,514	30,465	18,217	2,922	5,797	1,904	95	113
	Total Maintenance		698,899	357,766	213,933	34,316	68,073	22,365	1,118	1,328
	Total Water Treatment Expenses		9,014,680	4,501,438	2,767,011	472,003	921,015	307,514	20,953	24,746

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection Private	Fire Protection Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	TRANSMISSION AND DISTRIBUTION EXPENSES									
	-OPERATION-									
601.5	Supervision and Engineering	11	69,929	55,915	9,930	483	1,937	182	1,098	385
601.5	Labor Expense	11	481,389	384,919	68,357	3,322	13,334	1,252	7,558	2,648
615.5	Purchased Power	11	(111,564)	(89,207)	(15,842)	(770)	(3,090)	(290)	(1,752)	(614)
601.5	Labor - Lines	7	79,890	37,500	22,649	3,228	6,183	471	4,554	5,305
601.5	Labor - Meters	9	880,395	730,287	113,747	3,434	20,425	2,025	10,477	-
601.5	Labor - Services	10	0	-	-	-	-	-	-	-
620.5	M&S Operation	11	29,467	23,562	4,184	203	816	77	463	162
636.5	Contracted Services	11	93,439	74,714	13,268	645	2,588	243	1,467	514
650.5	Transportation	11	124	99	18	1	3	0	2	1
675.5	Office Supplies, Uniforms and Shipping	11	16,348	13,072	2,321	113	453	43	257	90
675.5	Misc. Operating Expense	11	25,109	20,077	3,565	173	696	65	394	138
675.5	Electricity TD	11	36,906	29,510	5,241	255	1,022	96	579	203
675.5	Heating Oil/Gas TD	11	(5,075)	(4,058)	(721)	(35)	(141)	(13)	(80)	(28)
675.5	Trash Removal TD	11	13,296	10,632	1,888	92	368	35	209	73
675.5	Cell Phone TD	11	6,355	5,082	902	44	176	17	100	35
641.5	Rents	11	5,321	4,255	756	37	147	14	84	29
	Total Operation		1,621,328	1,296,358	230,264	11,222	44,920	4,215	25,409	8,940
	-MAINTENANCE-									
601.6	Labor	12	633,088	382,828	101,484	9,496	22,411	1,646	25,197	90,025
601.6	Labor - Structures and Improvements	12	0	-	-	-	-	-	-	-
601.6	Labor - Reservoirs and Standpipes	5	0	-	-	-	-	-	-	-
601.6	Labor - Mains	7	103,644	48,651	29,383	4,187	8,022	611	5,908	6,882
601.6	Labor - Services	10	276,304	228,006	30,808	304	3,702	166	13,318	-
601.6	Labor - Meters	9	113,029	93,757	14,603	441	2,622	260	1,345	-
601.6	Labor - Hydrants	8	86,767	-	-	-	-	-	-	86,767
620.6	M&S Maint.	12	340,384	205,831	54,564	5,106	12,050	885	13,547	48,403
675.6	Misc Maint TD	12	162,394	98,199	26,032	2,436	5,749	422	6,463	23,092
675.6	Amort Def Maint TD	12	163,966	99,150	26,284	2,459	5,804	426	6,526	23,316
675.6	Misc Main Pvg/Bckfll	7	147,412	69,195	41,791	5,955	11,410	870	8,402	9,788
	Total Maintenance		2,026,987	1,225,617	324,949	30,385	71,771	5,287	80,706	288,273
	Total Transmission and Distribution		3,648,315	2,521,976	555,213	41,607	116,690	9,502	106,115	297,213

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection	
									Private	Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	CUSTOMER ACCOUNTS									
601.7	Labor - Meter Reading	14	300,524	273,176	21,397	120	1,803	60	3,967	-
636.7	Contracted Services	13	34,286	30,885	2,417	14	202	7	751	10
601.7	Labor - Customer Accounts	13	295,424	266,118	20,827	118	1,743	59	6,470	89
670.7	Uncollectible Accounts	20	790,360	710,217	43,944	7,508	16,598	-	12,093	-
650.7	Transportation	14	0	-	-	-	-	-	-	-
675.7	Telephone CA	13	109,546	98,679	7,723	44	646	22	2,399	33
675.7	Bank Svc Charges-CA	13	154,677	139,333	10,905	62	913	31	3,387	46
675.7	Cust Edu-Bill Insert	13	154,815	139,457	10,914	62	913	31	3,390	46
675.7	Office Supplies	13	0	-	-	-	-	-	-	-
675.7	Collection Agencies	13	475,212	428,071	33,502	190	2,804	95	10,407	143
675.7	Forms CA	13	146,622	132,077	10,337	59	865	29	3,211	44
675.7	Postage	13	650,201	585,701	45,839	260	3,836	130	14,239	195
675.7	Cell Phone CA	13	8,819	7,944	622	4	52	2	193	3
675.7	Misc. Operatiing	13	1,305	1,176	92	1	8	0	29	0
	Total Customers' Accounting and Collecting Expenses		3,121,790	2,812,834	208,520	8,441	30,383	466	60,536	609
	ADMINISTRATIVE AND GENERAL EXPENSES									
	-OPERATION-									
601.8	Administrative & General Salaries	15	1,241,012	849,225	229,463	28,667	62,299	16,133	19,980	35,245
620.8	M&S Operation	15	120,210	82,260	22,227	2,777	6,035	1,563	1,935	3,414
	Support Services									
	Customer Related	13	1,845,460	1,662,390	130,105	738	10,888	369	40,416	554
	Employee Related	16	763,419	496,222	157,493	19,849	43,210	11,680	10,841	24,124
	Water Quality	1	65,004	31,924	19,989	3,543	6,845	2,308	182	215
	Other	15	5,929,798	4,057,761	1,096,420	136,978	297,676	77,087	95,470	168,406
632.8	Contracted Services	15	544,634	372,693	100,703	12,581	27,341	7,080	8,769	15,468
642.8	Rents	15	3,543	2,425	655	82	178	46	57	101
650.8	Transportation	15	428,558	293,262	79,240	9,900	21,514	5,571	6,900	12,171
656.8	Insurance - Liability, Vehicle and Other	15	692,996	474,217	128,135	16,008	34,788	9,009	11,157	19,681
658.8	Workers Compensation	16	112,583	73,179	23,226	2,927	6,372	1,723	1,599	3,558
604.8	Employee Pensions and Benefits	16	3,016,849	1,960,952	622,376	78,438	170,754	46,158	42,839	95,332
666.8	Regulatory Expenses	19	290,523	165,569	68,825	9,907	20,133	5,462	7,118	13,509
675.8	Electricity AG	15	85,081	58,221	15,732	1,965	4,271	1,106	1,370	2,416
675.8	Heating Oil/Gas AG	15	(1,220)	(835)	(226)	(28)	(61)	(16)	(20)	(35)
675.8	Janitorial AG	15	43,530	29,787	8,049	1,006	2,185	566	701	1,236
675.8	Add'l Security Costs	15	45,184	30,920	8,355	1,044	2,268	587	727	1,283
675.8	Water & WW AG	15	32,810	22,452	6,067	758	1,647	427	528	932

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection Private	Fire Protection Public
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
675.8 Telephone AG	15	24,413	16,706	4,514	564	1,226	317	393	693
675.8 Cell Phone AG	15	78,612	53,794	14,535	1,816	3,946	1,022	1,266	2,233
675.8 Shipping, Postage and Printing	15	12,435	8,509	2,299	287	624	162	200	353
675.8 Low Income Pay Program	DA	48,444	48,444	-	-	-	-	-	-
675.8 Miscellaneous General Expense	15	528,704	361,792	97,757	12,213	26,541	6,873	8,512	15,015
675.8 Community Relations	16	124,513	80,933	25,687	3,237	7,047	1,905	1,768	3,935
675.8 Injuries and Damages	16	189	123	39	5	11	3	3	6
675.8 Employee Related Expense	16	271,173	176,262	55,943	7,050	15,348	4,149	3,851	8,569
675.8 Software Licenses	15	84,246	57,649	15,577	1,946	4,229	1,095	1,356	2,393
675.8 Office Supplies	15	29,504	20,190	5,455	682	1,481	384	475	838
675.8 Trash Removal AG	15	16,378	11,207	3,028	378	822	213	264	465
675.8 Misc Maint AG	15	889,450	608,651	164,459	20,546	44,650	11,563	14,320	25,260
Total Administrative and General Expenses		17,368,037	12,106,885	3,106,128	375,865	824,268	214,545	282,976	457,370
Total Operation and Maintenance Expenses		34,381,915	22,548,156	7,014,722	964,534	2,021,242	575,421	473,941	783,899

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection Private	Fire Protection Public
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
503 DEPRECIATION EXPENSE									
Other P/E Intangibles	17	81,012	41,348	21,176	3,151	6,303	1,661	2,447	4,926
Land and Land Rights	2	0	-	-	-	-	-	-	-
Source of Supply Struct & Improv	2	474,316	242,802	145,188	23,289	46,198	15,178	759	901
Collecting & Impounding Reservoirs	1	13,457	6,609	4,138	733	1,417	478	38	44
Lake, River and Other Intakes	2	39,906	20,428	12,215	1,959	3,887	1,277	64	76
SOS and Pumping Equipment	2	(505)	(258)	(155)	(25)	(49)	(16)	(1)	(1)
Wells and Springs	2	0	-	-	-	-	-	-	-
Supply Mains	2	284,139	145,451	86,975	13,951	27,675	9,092	455	540
Pumping Structures & Improvements	6	250,066	121,932	73,144	11,303	22,231	5,676	7,302	8,477
Power Generation Equipment	6	100,392	48,951	29,365	4,538	8,925	2,279	2,931	3,403
Other Power Production Equipment	6	390,228	190,275	114,142	17,638	34,691	8,858	11,395	13,229
Electric Pumping Equipment	6	480,996	234,534	140,691	21,741	42,761	10,919	14,045	16,306
Diesel Pumping Equipment	6	13,979	6,816	4,089	632	1,243	317	408	474
Hydraulic Pumping Equipment	6	315	154	92	14	28	7	9	11
Other Pumping Equipment	6	0	-	-	-	-	-	-	-
Water Treat Structures & Improv	2	1,157,227	592,385	354,227	56,820	112,714	37,031	1,852	2,199
Water Treat Equipment	2	1,277,404	653,903	391,013	62,721	124,419	40,877	2,044	2,427
Water Treat Filter Media	2	19,672	10,070	6,022	966	1,916	630	31	37
T & D Structures & Improvements	7	13,023	6,113	3,692	526	1,008	77	742	865
T & D Pumping Equipment	7	2,697	1,266	765	109	209	16	154	179
Distrib. Reservoirs & Standpipes	5	380,063	157,574	95,434	13,188	24,894	7,639	37,588	43,745
Transmission & Distribution Mains									
Not Classified	4	73,723	34,591	20,945	2,897	5,478	-	4,534	5,279
4 inch or less	4	129,322	60,678	36,740	5,082	9,609	-	7,953	9,259
6 inch to 8 inch	4	1,002,317	470,287	284,758	39,391	74,472	-	61,642	71,766
10 inch to 16 inch	3	927,364	435,768	260,497	41,824	82,814	27,172	36,631	42,659
18 inch or Greater	3	1,543,037	725,073	433,439	69,591	137,793	45,211	60,950	70,980
Services	10	1,276,720	1,053,550	142,354	1,404	17,108	766	61,538	-
Meters	9	526,836	437,010	68,067	2,055	12,223	1,212	6,269	-
Meter Installations	9	723,730	600,334	93,506	2,823	16,791	1,665	8,612	-
Hydrants	8	359,434	-	-	-	-	-	-	359,434
General Structures & Improvements	15	157,638	107,872	29,147	3,641	7,913	2,049	2,538	4,477
Office Structures	15	176,787	120,975	32,688	4,084	8,875	2,298	2,846	5,021
Stores Shop and Gar. Structures	15	31,089	21,274	5,748	718	1,561	404	501	883
Miscellaneous Structures & Improv	15	83,125	56,882	15,370	1,920	4,173	1,081	1,338	2,361
Office Furniture and Equipment	15	43,139	29,520	7,976	997	2,166	561	695	1,225
Computers & Peripheral Equipment	15	370,914	253,816	68,582	8,568	18,620	4,822	5,972	10,534
Personal Comp and Periph	15	(35,922)	(24,581)	(6,642)	(830)	(1,803)	(467)	(578)	(1,020)

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection Private	Fire Protection Public
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Computers and Periph Other	15	(4,788)	(3,276)	(885)	(111)	(240)	(62)	(77)	(136)
Computer Mainframe Software	15	311,700	213,296	57,633	7,200	15,647	4,052	5,018	8,852
Computer Mainframe Software BT	15	1,170,572	801,022	216,439	27,040	58,763	15,217	18,846	33,244
Computer Software - Special - CIS	13	0	-	-	-	-	-	-	-
Computer Software - Special - Other	15	0	-	-	-	-	-	-	-
Other Software	15	(829)	(567)	(153)	(19)	(42)	(11)	(13)	(24)
Other Office Equipment	15	381	261	70	9	19	5	6	11
Transportation Equip-Light Trucks	15	159,576	109,198	29,506	3,686	8,011	2,074	2,569	4,532
Transportation Equip-Heavy Trucks	15	203,464	139,230	37,620	4,700	10,214	2,645	3,276	5,778
Transportation Equip-Cars	15	32,215	22,045	5,957	744	1,617	419	519	915
Transportation Equip-Other	15	90,576	61,981	16,748	2,092	4,547	1,177	1,458	2,572
Stores Equipment	15	2,592	1,773	479	60	130	34	42	74
Tools, Shop & Garage Equipment	15	133,631	91,444	24,708	3,087	6,708	1,737	2,151	3,795
Laboratory Equipment	2	82,695	42,332	25,313	4,060	8,055	2,646	132	157
Power Operated Equipment	15	37,291	25,518	6,895	861	1,872	485	600	1,059
Communication Equipment - Non-Telephone	15	16,650	11,394	3,079	385	836	216	268	473
Remote Control and Instrument	15	247,480	169,350	45,759	5,717	12,423	3,217	3,984	7,028
Communication Equipment - Telephone	15	5,871	4,018	1,086	136	295	76	95	167
Miscellaneous Equipment	15	84,631	57,913	15,648	1,955	4,248	1,100	1,363	2,404
Other Tangible Property	15	6,748	4,618	1,248	156	339	88	109	192
Total Depreciation Expense		14,948,097	8,614,952	3,462,539	479,180	991,702	263,886	384,050	751,788
AMORTIZATION EXPENSE									
AFUDC	18	170,039	86,754	44,295	6,581	13,144	3,486	5,356	10,423
Acquisition Adjustment	18	0	-	-	-	-	-	-	-
Property Losses	2	57,088	29,223	17,475	2,803	5,560	1,827	91	108
Total Amortizations		227,127	115,977	61,770	9,384	18,704	5,313	5,448	10,532

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection	
									Private	Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	TAXES, OTHER THAN INCOME									
408.1	Federal and State Payroll Taxes	16	576,225	374,546	118,875	14,982	32,614	8,816	8,182	18,209
408.1	Property Taxes	18	5,440,027	2,775,502	1,417,127	210,529	420,514	111,521	171,361	333,474
408.1	Other Taxes and Licenses	18	9,691	4,944	2,524	375	749	199	305	594
408.1	Utility Reg Assessment	19	193,242	110,129	45,779	6,590	13,392	3,633	4,734	8,986
412.0	ITC	18	0	-	-	-	-	-	-	-
	Total Taxes, Other Than Income		6,219,184	3,265,120	1,584,306	232,475	467,269	124,168	184,583	361,262
	INCOME TAXES	18	12,830,535	6,546,139	3,342,354	496,542	991,800	263,026	404,162	786,512
	Utility Operating Income Available for Return	18	33,197,647	16,937,440	8,647,987	1,284,749	2,566,178	680,552	1,045,726	2,035,016
	Total Cost of Service		101,804,505	58,027,785	24,113,679	3,466,863	7,056,896	1,912,366	2,497,909	4,729,008
	Less: Misc. Service	19	59,000	33,624	13,977	2,012	4,089	1,109	1,446	2,744
	Rent	19	69,684	39,713	16,508	2,376	4,829	1,310	1,707	3,240
	Rent I/C	19	65,400	37,271	15,493	2,230	4,532	1,230	1,602	3,041
	NSF Return Check Charge	13	32,142	28,954	2,266	13	190	6	704	10
	Late Payment Fee	13	852,640	768,058	60,111	341	5,031	171	18,673	256
	Reconnection/Activation - T&D Related	7	299,605	140,635	84,938	12,104	23,189	1,768	17,077	19,894
	Application/Initiation Fee	13	743,543	669,784	52,420	297	4,387	149	16,284	223
	Usage Data	13	52,634	47,413	3,711	21	311	11	1,153	16
	AFUDC	18	665,027	339,297	173,240	25,737	51,407	13,633	20,948	40,766
	Total Other Water Revenues		2,839,675	2,104,748	422,664	45,131	97,964	19,386	79,594	70,189
	Total Cost of Service Related to Sales of Water		98,964,830	55,923,037	23,691,015	3,421,732	6,958,932	1,892,980	2,418,315	4,658,819

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

FACTOR 1. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED.

Factors are based on the pro forma test year average daily consumption for each customer classification.

Customer Classification (1)	Average Daily Consumption, Thousand Gallons (2)	Allocation Factor (3)
Residential	15,275	0.4911
Commercial	9,566	0.3075
Industrial	1,696	0.0545
Other Public Authority	3,277	0.1053
Sales for Resale	1,105	0.0355
Private Fire Protection	88	0.0028
Public Fire Protection	103	0.0033
Total	31,110	1.0000

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AN MAXIMUM DAY EXTRA CAPACITY FUNCTIONS.

Factors are based on the weighting of the factors for average daily consumption (Factor 1) and the factors derived from maximum day extra capacity demand for each customer

	Average Daily Consumption		Maximum Day Extra Capacity		
Customer Classification (1)	Allocation Factor 1 (2)	Weighted Factor (3)=(2)x 0.5714	Allocation Factor (4)	Weighted Factor (5)=(4)x 0.4286	Allocation Factor (6)=(3)+(5)
Residential	0.4911	0.2806	0.5398	0.2313	0.5119
Commercial	0.3075	0.1757	0.3042	0.1304	0.3061
Industrial	0.0545	0.0311	0.0419	0.0180	0.0491
Other Public Authority	0.1053	0.0602	0.0868	0.0372	0.0974
Sales for Resale	0.0355	0.0203	0.0273	0.0117	0.0320
Private Fire Protection	0.0028	0.0016			0.0016
Public Fire Protection	0.0033	0.0019			0.0019
Total	1.0000	0.5714	1.0000	0.4286	1.0000

The derivation of the maximum day extra capacity factors in column 4 and the basis for the column 3 and 5 weightings are presented on the following page.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM DAY EXTRA CAPACITY FUNCTIONS, cont.

		Maximum Day Extra Capacity		
Customer Classification	Average Daily Consumption, Thousand Gallons	Factor*	Rate of Flow, Thousand Gallons Per Day	Allocation Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	15,275	1.00	15,275	0.5398
Commercial	9,566	0.90	8,609	0.3042
Industrial	1,696	0.70	1,187	0.0419
Other Public Authority	3,277	0.75	2,458	0.0868
Sales for Resale	1,105	0.70	774	0.0273
Total	30,919		28,303	1.0000

The weighting of the factors is based on the maximum day ratio of 1.75, based on a review of maximum day ratios experienced during the period 2000 through 2014 (see Schedule D).

	Maximum Day Ratio	Weight
Average Day	1.00	0.5714
Maximum Day Extra Capacity	0.75	0.4286
Total	1.75	1.0000

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* Ratio of maximum day to average day minus 1.0.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY EXTRA CAPACITY AND FIRE PROTECTION FUNCTIONS.

Factors are based on the weighting of the average daily consumption, the maximum day extra capacity demand, and the fire protection demand for each customer classification.

	Average Daily Consumption		Maximum Day Extra Capacity		Fire Protection		
Customer Classification	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2) X 0.5244	(4)	(5)=(4) X 0.3933	(6)	(7)=(6) X 0.0823	(8)=(3)+(5)+(7)
Residential	0.4911	0.2575	0.5398	0.2124			0.4699
Commercial	0.3075	0.1613	0.3042	0.1196			0.2809
Industrial	0.0545	0.0286	0.0419	0.0165			0.0451
Other Public Authority	0.1053	0.0552	0.0868	0.0341			0.0893
Sales for Resale	0.0355	0.0186	0.0273	0.0107			0.0293
Private Fire Protection	0.0028	0.0015			0.4620	0.0380	0.0395
Public Fire Protection	0.0033	0.0017			0.5380	0.0443	0.0460
Total	1.0000	0.5244	1.0000	0.3933	1.0000	0.0823	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY EXTRA CAPACITY AND FIRE PROTECTION FUNCTIONS, cont.

The weighting of the factors is based on the potential demand of general and fire protection service. The bases for the potential demand of general service are the maximum day ratio of 1.75 and the average daily system sendout for year ending 2014 of 38.233 MGD. The system demand for fire protection is 10,000 Gallons per minute for 10 hours.

	Ratio	Rate of Flow, (GPD)	Weight
Average Day	1.00	38,233,082	0.5244
Maximum Day Extra Capacity	0.75	28,674,812	0.3933
Subtotal	1.75	66,907,894	0.9177
Fire Protection		6,000,000	0.0823
Total		72,907,894	1.0000

The public and private fire protection allocation factors in column 6 on the previous page are based on the relative potential demands (see Schedule E).

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM HOUR EXTRA CAPACITY FUNCTIONS.

Factors are based on the weighting of the average daily consumption, the maximum day extra capacity demand, and the fire protection demand for each customer classification.

	Average Hourly Consumption			Maximum Hour Extra Capacity		Fire Protection		
Customer Classification	Thousand Gallons	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor
(1)	(2)	(3)	(4)=(3) X 0.3477	(5)	(6)=(5) X 0.5214	(7)	(8)=(7) X 0.1309	(9)=(4)+(6)+(8)
Residential	636.5	0.5092	0.1771	0.5603	0.2921			0.4692
Commercial	398.6	0.3188	0.1108	0.3324	0.1733			0.2841
Industrial	70.7	0.0565	0.0196	0.0377	0.0197			0.0393
Other Public Authority	136.5	0.1092	0.0380	0.0696	0.0363			0.0743
Sales for Resale	0.0	0.0000	0.0000	0.0000	0.0000			0.0000
Private Fire Protection	3.7	0.0030	0.0010			0.4620	0.0605	0.0615
Public Fire Protection	4.3	0.0034	0.0012			0.5380	0.0704	0.0716
Total	1,250.3	1.0001	0.3477	1.0000	0.5214	1.0000	0.1309	1.0000

The maximum hour extra capacity factors in column 5 are determined on the next page.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM HOUR EXTRA CAPACITY FUNCTIONS, cont.

The weighting of the factors is based on the potential demand of general and fire protection service. The bases for the potential demand of general service are the maximum hour ratio of 2.5 and the average daily system sendout for the year ending 2014 of 38.233 MGD. The system demand for fire protection is 10,000 gallons per minute.

	Ratio	Rate of Flow, (GPM)	Weight
Average Hour	1.00	26,551	0.3477
Maximum Hour Extra Capacity	1.50	39,827	0.5214
Subtotal	2.50	66,378	0.8691
Fire Protection		10,000	0.1309
Total		76,378	1.0000

The maximum hour extra capacity factors in column 5 of the previous page are determined as follows:

Customer Classification	Average Hourly Consumption Thousand Gallons	Maximum Hour Extra Capacity		
		Factor*	1,000 Gallons Per Hour	Allocatio Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	636.5	1.90	1,209.4	0.5603
Commercial	398.6	1.80	717.5	0.3324
Industrial	70.7	1.15	81.3	0.0377
Other Public Authority	136.5	1.10	150.2	0.0696
Sales for Resale	0.0	0.90	0.0	0.0000
Total	1,242.3		2,158.4	1.0000

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* Ratio of Maximum Hour To Average Hour Minus 1.0.

The public and private fire protection allocation factors in column 7 on the previous page are based on the relative potential demands (see Schedule E).

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Factors are based on the weighting of the average hourly consumption, the maximum hour extra capacity demand, and the fire protection demand for each customer classification.

	Average Hourly Consumption			Maximum Hour Extra Capacity		Fire Protection		
Customer Classification	Thousand Gallons	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor
(1)	(2)	(3)	(4)=(3) X 0.3152	(5)	(6)=(5) X 0.4727	(7)	(8)=(7) X 0.2121	(9)=(4)+(6)+(8)
Residential	636.5	0.4910	0.1548	0.5497	0.2598			0.4146
Commercial	398.6	0.3075	0.0969	0.3262	0.1542			0.2511
Industrial	70.7	0.0545	0.0172	0.0370	0.0175			0.0347
Other Public Authority	136.5	0.1053	0.0332	0.0683	0.0323			0.0655
Sales for Resale	46.0	0.0355	0.0112	0.0188	0.0089			0.0201
Private Fire Protection	3.7	0.0029	0.0009			0.4620	0.0980	0.0989
Public Fire Protection	4.3	0.0033	0.0010			0.5380	0.1141	0.1151
Total	1,296.3	1.0000	0.3152	1.0000	0.4727	1.0000	0.2121	1.0000

The weighting of the factors is based on the ratio of the capacity required for a 10 hour demand of fire flow, as related to total storage capacity. The calculation is shown on the following page.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES, cont.

The weighting of the factors is based on the ratio of the capacity required for a 10 hour demand of fire flow, as related to total storage capacity.

$$\text{Fire Protection Weight} = \frac{10{,}000 \text{ GPM X } 60 \text{ Min. X } 10 \text{ Hrs.}}{28{,}286{,}000 \text{ Gallons}} = 0.2121$$

$$\text{General Service Weight} = 1.0000 - 0.2121 = 0.7879$$

The weighting of the average hourly consumption and maximum hour extra demand for general service is based on the maximum hour ratio, as follows:

	Maximum Hour Ratio	Percent	Weight
Average Hour	1.00	40.00	0.3152
Extra Capacity Maximum Hour	1.50	60.00	0.4727
Total	2.50	100.00	0.7879

Customer Classification	Average Hourly Consumption Thousand Gallons	Maximum Hour Extra Capacity		
		Factor*	1,000 Gallons Per Hour	Allocation Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	636.5	1.9	1,209.4	0.5497
Commercial	398.6	1.8	717.5	0.3262
Industrial	70.7	1.2	81.3	0.0370
Other Public Authority	136.5	1.1	150.2	0.0683
Sales for Resale	46.0	0.9	41.4	0.0188
Total	1,288.3		2,199.8	1.0000

* Ratio of Maximum Hour To Average Hour Minus 1.0.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 6. ALLOCATION OF COSTS ASSOCIATED WITH POWER AND PUMPING FACILITIES.

Factors are based on the weighting of the maximum daily consumption, Factor 2, the maximum daily consumption with fire, Factor 3, and the maximum hour consumption, Factor 4, for each customer classification, as follows:

	Maximum Daily Consumption		Maximum Daily Consumption w/ Fire		Maximum Hourly Consumption		
Customer Classification	Allocation Factor 2	Weighted Factor	Allocation Factor 3	Weighted Factor	Allocation Factor 4	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)X 0.4259	(4)	(5)=(4)X 0.3109	(6)	(7)=(6)X 0.2632	(8)=(3)+ (5)+(7)
Residential	0.5119	0.2180	0.4699	0.1461	0.4692	0.1235	0.4876
Commercial	0.3061	0.1304	0.2809	0.0873	0.2841	0.0748	0.2925
Industrial	0.0491	0.0209	0.0451	0.0140	0.0393	0.0103	0.0452
Other Public Authority	0.0974	0.0415	0.0893	0.0278	0.0743	0.0196	0.0889
Sales for Resale	0.0320	0.0136	0.0293	0.0091	0.0000	0.0000	0.0227
Private Fire Protection	0.0016	0.0007	0.0395	0.0123	0.0615	0.0162	0.0292
Public Fire Protection	0.0019	0.0008	0.0460	0.0143	0.0716	0.0188	0.0339
Total	1.0000	0.4259	1.0000	0.3109	1.0000	0.2632	1.0000

The weighting of the factors is based on the horsepower of pumps associated with maximum day facilities, maximum day and fire facilities, and maximum hour facilities, as follows:

	Horsepower of Pumps	Weight
Associated with Maximum Day	10,200	0.4259
Associated with Maximum Day and Fire	7,447	0.3109
Associated with Maximum Hour	6,305	0.2632
Total	23,952	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 7. ALLOCATION OF COSTS ASSOCIATED WITH TRANSMISSION AND DISTRIBUTION MAINS.

Factors are based on the weighting of the maximum daily consumption with fire, Factor 3, and the maximum hour consumption, Factor 5, for each customer classification, as follows:

	Maximum Daily Consumption w/ Fire		Maximum Hourly Consumption		
Customer Classification	Allocation Factor 3	Weighted Factor	Allocation Factor 4	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)X 0.2025	(4)	(5)=(4)X 0.7975	(6)=(3)+(5)
Residential	0.4699	0.0952	0.4692	0.3742	0.4694
Commercial	0.2809	0.0569	0.2841	0.2266	0.2835
Industrial	0.0451	0.0091	0.0393	0.0313	0.0404
Other Public Authority	0.0893	0.0181	0.0743	0.0593	0.0774
Sales for Resale	0.0293	0.0059	0.0000	0.0000	0.0059
Private Fire Protection	0.0395	0.0080	0.0615	0.0490	0.0570
Public Fire Protection	0.0460	0.0093	0.0716	0.0571	0.0664
Total	1.0000	0.2025	1.0000	0.7975	1.0000

The weighting of the factors is based on the total footage of mains, designated as either transmission mains or distribution mains, as follows:

	Total Footage of Mains	Weight
Transmission Mains	2,111,407	0.2025
Distribution Mains	8,317,444	0.7975
Total	10,428,851	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 8. ALLOCATION OF COSTS ASSOCIATED WITH FIRE HYDRANTS.

Costs are assigned directly to Public Fire Protection.

Customer Classification (1)	Allocation Factor (3)
Public Fire Protection	1.0000
Total	1.0000

FACTOR 9. ALLOCATION OF COSTS ASSOCIATED WITH METERS.

Factors are based on the relative cost of meters by size and customer classification, as developed on the following page and summarized below.

Customer Classification (1)	5/8" Dollar Equivalents (2)	Allocation Factor (3)
Residential	118,614	0.8295
Commercial	18,473	0.1292
Industrial	552	0.0039
Other Public Authority	3,324	0.0232
Sales for Resale	334	0.0023
Private Fire	1,701	0.0119
Total	142,998	1.0000

KENTUCKY-AMERICAN WATER COMPANY

BASIS FOR ALLOCATING METER COSTS TO CUSTOMER CLASSIFICATIONS

	5/8"	Residential		Commercial		Industrial		Other Public Authority		Sales for Resale		Private Fire Protection		Total	
Meter Size (1)	Dollar Equivalent (2)	Number of Meters (3)	Weighting (4)=(2)X(3)	Number of Meters (5)	Weighting (6)=(2)X(5)	Number of Meters (7)	Weighting (8)=(2)X(7)	Number of Meters (9)	Weighting (10)=(2)X(9)	Number of Meters (11)	Weighting (12)=(2)X(11)	Number of Meters (13)	Weighting (14)=(2)X(11)	Number of Meters (15)	Weighting (16)
5/8	1.0	114,772	114,772	4,623	4,623	6	6	140	140	0	0	1,701	1,701	121,242	121,242
3/4	1.4	1	1	1	1	0	0	0	0	0	0	0	0	2	2
1	1.8	1,822	3,280	2,397	4,315	2	4	172	310	0	0	0	0	4,393	7,909
1-1/2	3.0	13	39	172	516	2	6	28	84	4	12	0	0	219	657
2	4.0	98	392	1,886	7,544	24	96	367	1,468	8	32	0	0	2,383	9,532
3	12.0	0	0	2	24	0	0	1	12	0	0	0	0	3	36
4	20.0	0	0	31	620	10	200	42	840	7	140	0	0	90	1,800
6	30.0	3	90	13	390	8	240	13	390	5	150	0	0	42	1,260
8	40.0	1	40	11	440	0	0	2	80	0	0	0	0	14	560
Total		116,710	118,614	9,136	18,473	52	552	765	3,324	24	334	1,701	1,701	128,388	142,998

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 10. ALLOCATION OF COSTS ASSOCIATED WITH SERVICES.

Factors are based on the relative cost of services by size and customer classification, as developed on the following page and summarized below.

Customer Classification (1)	3/4" Dollar Equivalents (2)	Allocation Factor (3)
Residential	118,777	0.8252
Commercial	16,054	0.1115
Industrial	158	0.0011
Other Public Authority	1,933	0.0134
Sales for Resale	80	0.0006
Private Fire Protection	6,934	0.0482
Total	143,936	1.0000

KENTUCKY-AMERICAN WATER COMPANY

BASIS FOR ALLOCATING SERVICE COSTS TO CUSTOMER CLASSIFICATIONS

	3/4"	Residential		Commercial		Industrial		Other Public Authority		Sales for Resale		Private Fire Protection		Total	
Service Size	Dollar Equivalent	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting
(1)	(2)	(3)	(4)=(2)X(3)	(5)	(6)=(2)X(5)	(7)	(8)=(2)X(7)	(9)	(10)=(2)X(9)	(11)	(12)=(2)X(11)	(13)	(14)=(2)X(11)	(15)	(16)
3/4	1.00	80,109 *	80,109	4,623	4,623	6	6	140	140	0	0	0	0	84,878	84,878
1	2.00	19,154 *	38,308	2,397	4,794	2	4	172	344	0	0	0	0	21,725	43,450
1-1/2	2.20	13	29	172	378	2	4	28	62	4	9	0	0	219	482
2	3.20	98	314	1,886	6,035	24	77	367	1,174	8	26	69	221	2,452	7,847
4	3.50	0	0	33	116	10	35	43	151	7	25	420	1,470	513	1,797
6	4.00	3	12	13	52	8	32	13	52	5	20	912	3,648	954	3,816
8	5.10	1	5	11	56	0	0	2	10	0	0	285	1,454	299	1,525
10	8.90	0	0	0	0	0	0	0	0	0	0	9	80	9	80
12	9.50	0	0	0	0	0	0	0	0	0	0	5	48	5	48
>12	12.70	0	0	0	0	0	0	0	0	0	0	1	13	1	13
Total		99,378	118,777	9,135	16,054	52	158	765	1,933	24	80	1,701	6,934	111,055	143,936

*Adjusted to reflect that approximately 34,663 residential customers are served by 1-inch service lines each serving two residences.

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 11. ALLOCATION OF TRANSMISSION AND DISTRIBUTION OPERATION SUPERVISION AND ENGINEERING AND MISCELLANEOUS EXPENSES.

Factors are based on transmission and distribution operation expenses other than those being allocated, as follows:

Customer Classification (1)	Transmission & Distribution Operating Expenses (2)	Allocation Factor (3)
Residential	$ 767,787	0.7996
Commercial	136,396	0.1420
Industrial	6,661	0.0069
Other Public Authority	26,609	0.0277
Sales for Resale	2,496	0.0026
Private Fire Protection	15,030	0.0157
Public Fire Protection	5,305	0.0055
Total	960,284	1.0000

FACTOR 12. ALLOCATION OF TRANSMISSION AND DISTRIBUTION MAINTENANCE SUPERVISION AND ENGINEERING, STRUCTURES AND IMPROVEMENTS, AND OTHER EXPENSES.

Factors are based on transmission and distribution maintenance expenses other than those being allocated, as follows:

Customer Classification (1)	Transmission & Distribution Maintenance Expenses (2)	Allocation Factor (3)
Residential	$ 439,609	0.6047
Commercial	116,586	0.1603
Industrial	10,887	0.0150
Other Public Authority	25,756	0.0354
Sales for Resale	1,907	0.0026
Private Fire Protection	28,973	0.0398
Public Fire Protection	103,437	0.1422
Total	$727,156	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 13. ALLOCATION OF BILLING AND COLLECTING COSTS.

Factors are based on the total number of customers.

Customer Classification (1)	Total Customers (2)	Allocation Factor (3)
Residential	116,710	0.9008
Commercial	9,136	0.0705
Industrial	52	0.0004
Other Public Authority	765	0.0059
Sales for Resale	24	0.0002
Private Fire Protection	2,836	0.0219
Public Fire Protection	38	0.0003
Total	129,561	1.0000

FACTOR 14. ALLOCATION OF METER READING COSTS.

Factors are based on the number of metered customers.

Customer Classification (1)	Total Metered Customers (2)	Allocation Factor (3)
Residential	116,710	0.9090
Commercial	9,136	0.0712
Industrial	52	0.0004
Other Public Authority	765	0.0060
Sales for Resale	24	0.0002
Private Fire Protection	1,701	0.0132
Total	128,388	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 15. ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSES

Factors are based on the allocation of all other operation and maintenance expenses excluding purchased water, power, chemicals and waste disposal.

Customer Classification (1)	Operation & Maintenance Expenses (2)	Allocation Factor (3)
Residential	$7,384,256	0.6843
Commercial	1,994,459	0.1849
Industrial	249,416	0.0231
Other Public Authority	541,499	0.0502
Sales for Resale	139,895	0.0130
Private Fire Protection	173,535	0.0161
Public Fire Protection	305,987	0.0284
Total	$10,789,047	1.0000

FACTOR 15A. ALLOCATION OF CASH WORKING CAPITAL

Factors are based on the allocation of operation and maintenance expenses including purchased water, power, chemicals, waste disposal, and administrative and general expenses.

Customer Classification (1)	Operation & Maintenance Expenses (2)	Allocation Factor (3)
Residential	$22,548,156	0.6558
Commercial	7,014,722	0.2040
Industrial	964,534	0.0281
Other Public Authority	2,021,242	0.0588
Sales for Resale	575,421	0.0167
Private Fire Protection	473,941	0.0138
Public Fire Protection	783,899	0.0228
Total	$34,381,915	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 16. ALLOCATION OF LABOR RELATED TAXES AND BENEFITS.

Factors are based on the allocation of direct labor expense.

Customer Classification (1)	Direct Labor Expense (2)	Allocation Factor (3)
Residential	$4,778,960	0.6500
Commercial	1,516,893	0.2063
Industrial	190,824	0.0260
Other Public Authority	416,301	0.0566
Sales for Resale	112,169	0.0153
Private Fire Protection	104,336	0.0142
Public Fire Protection	232,647	0.0316
Total	$7,352,130	1.0000

FACTOR 17. ALLOCATION OF ORGANIZATION, FRANCHISES AND CONSENTS, MISCELLANEOUS INTANGIBLE PLANT AND OTHER RATE BASE ELEMENTS.

Factors are based on the allocation of the original cost less depreciation other than those items being allocated, as follows:

Customer Classification (1)	Original Cost Less Depreciation (2)	Allocation Factor (3)
Residential	$236,636,627	0.5104
Commercial	121,208,485	0.2614
Industrial	18,049,266	0.0389
Other Public Authority	36,062,520	0.0778
Sales for Resale	9,513,914	0.0205
Private Fire Protection	13,994,057	0.0302
Public Fire Protection	28,195,614	0.0608
Total	$463,660,483	1.0000

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 18. ALLOCATION OF INCOME TAXES AND INCOME AVAILABLE FOR RETURN.

Factors are based on the allocation of the original cost measure of value rate base as shown on the following pages and summarized below.

Customer Classification (1)	Original Cost Measure of Value (2)	Allocation Factor (3)
Residential	$206,100,840	0.5102
Commercial	105,201,305	0.2605
Industrial	15,632,890	0.0387
Other Public Authority	31,207,207	0.0773
Sales for Resale	8,277,580	0.0205
Private Fire Protection	12,706,426	0.0315
Public Fire Protection	24,769,895	0.0613
Total	$403,896,142	1.0000

FACTOR 19. ALLOCATION OF REGULATORY COMMISSION EXPENSES, ASSESSMENTS AND OTHER WATER REVENUES.

The factors are based on the allocation of the total cost of service, excluding those items being allocated.

Customer Classification (1)	Total Cost of Service (2)	Allocation Factor (3)
Residential	$57,752,087	0.5699
Commercial	23,999,075	0.2369
Industrial	3,450,367	0.0341
Other Public Authority	7,023,371	0.0693
Sales for Resale	1,903,271	0.0188
Private Fire Protection	2,486,056	0.0245
Public Fire Protection	4,706,513	0.0465
Total	$101,320,740	1.0000

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection	
									Private	Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	RATE BASE									
301.0	Organization	17	37,450	19,115	9,790	1,457	2,914	768	1,131	2,277
302.0	Franchise and Consents	17	70,261	35,861	18,366	2,733	5,466	1,440	2,122	4,272
339.1	Other P/E Intangibles	17	356,447	181,931	93,175	13,866	27,732	7,307	10,765	21,672
339.3	Other P/E Treatment	2	0	-	-	-	-	-	-	-
303.2	Land and Land Rights - SS	2	1,117,541	572,069	342,079	54,871	108,848	35,761	1,788	2,123
304.1	Source of Supply Struct & Improv	2	18,418,095	9,428,223	5,637,779	904,328	1,793,922	589,379	29,469	34,994
305.0	Collecting &Impounding Reservoirs	1	560,223	275,125	172,269	30,532	58,991	19,888	1,569	1,849
306.0	Lake, River and Other Intakes	2	1,527,151	781,749	467,461	74,983	148,745	48,869	2,443	2,902
309.0	Supply Mains	2	14,345,007	7,343,209	4,391,007	704,340	1,397,204	459,040	22,952	27,256
311.5	Pumping Equipment - SS	2	15,425,247	7,896,184	4,721,668	757,380	1,502,419	493,608	24,680	29,308
303.3	Pumping Land & Land Rights	6	277,216	135,171	81,086	12,530	24,645	6,293	8,095	9,398
304.2	Pumping Structures & Improvements	6	7,273,152	3,546,389	2,127,397	328,746	646,583	165,101	212,376	246,560
310.0	Other Power Production Equipment	6	2,593,355	1,264,520	758,556	117,220	230,549	58,869	75,726	87,915
311.2	Electric Pumping Equipment	6	10,172,201	4,959,965	2,975,369	459,783	904,309	230,909	297,028	344,838
311.2	Diesel Pumping Equipment	6	410,135	199,982	119,964	18,538	36,461	9,310	11,976	13,904
311.4	Hydraulic Pumping Equipement	6	7,440	3,628	2,176	336	661	169	217	252
311.5	Other Pumping Equipment	6	(1,262,501)	(615,595)	(369,282)	(57,065)	(112,236)	(28,659)	(36,865)	(42,799)
303.4	Land and Land Rights	2	800,183	409,614	244,936	39,289	77,938	25,606	1,280	1,520
304.3	Water Treat Structures & Improv	2	36,552,418	18,711,183	11,188,695	1,794,724	3,560,206	1,169,677	58,484	69,450
311.5	Pumping Equipment - WT	2	242	124	74	12	24	8	0	0
320.1	Water Treat Equipment	2	34,148,869	17,480,806	10,452,969	1,676,709	3,326,100	1,092,764	54,638	64,883
320.2	WT Filter Media	2	(160,976)	(82,404)	(49,275)	(7,904)	(15,679)	(5,151)	(258)	(306)
303.5	Land and Land Rights - T&D	7	7,474,952	3,508,743	2,119,149	301,988	578,561	44,102	426,072	496,337
304.4	T & D Structures & Improvements	7	281,215	132,003	79,725	11,361	21,766	1,659	16,029	18,673
311.5	Pumping Equipment - T&D	7	159,320	74,785	45,167	6,437	12,331	940	9,081	10,579
330.0	Distrib. Reservoirs & Standpipes	5	15,038,005	6,234,757	3,776,043	521,819	984,989	302,264	1,487,259	1,730,874
331.0	Transmission & Distribution Mains									
	Not Classified	4	4,227,993	1,983,775	1,201,173	166,160	314,140	-	260,022	302,724
	4 inch or less	4	7,416,604	3,479,871	2,107,057	291,473	551,054	-	456,121	531,029
	6 inch to 8 inch	4	57,482,928	26,970,990	16,330,900	2,259,079	4,270,982	-	3,535,200	4,115,778
	10 inch to 16 inch	3	53,184,342	24,991,322	14,939,482	2,398,614	4,749,362	1,558,301	2,100,782	2,446,480
	18 inch or Greater	3	88,493,228	41,582,968	24,857,748	3,991,045	7,902,445	2,592,852	3,495,482	4,070,688
333.0	Services	10	8,661,959	7,147,849	965,808	9,528	116,070	5,197	417,506	-
334.0	Meters	9	8,106,736	6,724,538	1,047,390	31,616	188,076	18,645	96,470	-
334.0	Meter Installations	9	16,483,563	13,673,115	2,129,676	64,286	382,419	37,912	196,154	-
335.0	Fire Hydrants	8	12,377,147	-	-	-	-	-	-	12,377,147
304.5	Office Structures	15	11,071,537	7,576,252	2,047,127	255,752	555,791	143,930	178,252	314,432
340.1	Office Furniture and Equipment	15	593,316	406,006	109,704	13,706	29,784	7,713	9,552	16,850
340.2	Computer Equipment and Software	15	2,504,122	1,713,571	463,012	57,845	125,707	32,554	40,316	71,117

KENTUCKY AMERICAN WATER COMPANY

COST OF SERVICE FOR THE TWELVE MONTHS ENDED AUGUST 31, 2017, ALLOCATED TO CUSTOMER CLASSIFICATIONS

	Account	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection	
									Private	Public
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
340.3	Computer Software - Special - CIS	13	2,090,288	1,882,931	147,365	836	12,333	418	45,777	627
340.3	Computer Software - Special - Other	15	4,541,336	3,107,636	839,693	104,905	227,975	59,037	73,116	128,974
341.0	Transportation Equip	15	4,634,741	3,171,553	856,964	107,063	232,664	60,252	74,619	131,627
342.0	Stores Equipment	15	70,770	48,428	13,085	1,635	3,553	920	1,139	2,010
343.0	Tools, Shop & Garage Equipment	15	1,662,944	1,137,953	307,478	38,414	83,480	21,618	26,773	47,228
344.0	Laboratory Equipment	2	893,647	457,458	273,545	43,878	87,041	28,597	1,430	1,698
345.0	Power Operated Equipment	15	463,634	317,265	85,726	10,710	23,274	6,027	7,465	13,167
346.0	Communication Equipment	15	3,311,377	2,265,975	612,274	76,493	166,231	43,048	53,313	94,043
347.0	Miscellaneous Equipment	15	1,021,685	699,139	188,910	23,601	51,289	13,282	16,449	29,016
348.0	Other Tangible Property	15	14,538	9,949	2,688	336	730	189	234	413
	Total Plant in Service, Net of Accumulated Depreciation, Contributions and Advances		454,931,083	231,845,676	118,933,149	17,715,988	35,397,848	9,360,413	13,804,233	27,873,776
	OTHER RATE BASE ELEMENTS									
	Utility Plant Acquisition Adjustments	17		-	-	-	-	-	-	-
	CWIP - Water Treatment Plant and Supply Mains	2	3,483,151	1,783,025	1,066,193	171,023	339,259	111,461	5,573	6,618
	CWIP - Transmission Mains	3	0	-	-	-	-	-	-	-
	CWIP - Reservoirs and Standpipes	5	0	-	-	-	-	-	-	-
	CWIP - Distribution Mains	4	2,168,171	1,017,306	615,977	85,209	161,095	-	133,343	155,241
	CWIP - Pumping	6	719,327	350,744	210,403	32,514	63,948	16,329	21,004	24,385
	CWIP - Meters and Meter Installations	9	31,550	26,171	4,076	123	732	73	375	-
	CWIP - Services	10	217	179	24	0	3	0	10	-
	CWIP - Hydrants	8	87,017	-	-	-	-	-	-	87,017
	CWIP - Other	15	2,704,125	1,850,433	499,993	62,465	135,747	35,154	43,536	76,797
	Working Capital Allowance	15A	6,051,037	3,968,270	1,234,412	170,034	355,801	101,052	83,504	137,964
	Materials and Supplies	17	0	-	-	-	-	-	-	-
	Deferred Income Taxes	17	(78,268,967)	(39,948,481)	(20,459,508)	(3,044,663)	(6,089,326)	(1,604,514)	(2,363,723)	(4,758,753)
	Deferred Investment Tax Credits	17	(31,363)	(16,008)	(8,198)	(1,220)	(2,440)	(643)	(947)	(1,907)
	Deferred Maintenance - Tank Painting	5	9,539,974	3,955,273	2,395,487	331,037	624,868	191,753	943,503	1,098,051
	Deferred Debits - Source of Supply	2	1,360,408	696,393	416,421	66,796	132,504	43,533	2,177	2,585
	Other Rate Base Elements	17	1,120,412	571,858	292,876	43,584	87,168	22,968	33,836	68,121
	Total Other Rate Base Elements		(51,034,941)	(25,744,837)	(13,731,844)	(2,083,098)	(4,190,640)	(1,082,834)	(1,097,807)	(3,103,881)
	Total Original Cost Measure of Value		403,896,142	206,100,840	105,201,305	15,632,890	31,207,207	8,277,580	12,706,426	24,769,895

KENTUCKY AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 20. ALLOCATION OF UNCOLLECTIBLE ACCOUNTS

Factors are based on the net charge-offs by customer classification.

Customer Classification (1)	Net Charge-Offs (2)	Allocation Factor (3)
Residential	$1,236,492	0.8986
Commercial	76,545	0.0556
Industrial	13,023	0.0095
Other Public Authority	28,831	0.0210
Sales for Resale	0	0.0000
Private Fire	21,077	0.0153
Total	$1,375,968	1.0000

KENTUCKY-AMERICAN WATER COMPANY

SUMMARY OF AVERAGE DAY AND PEAK DAY DELIVERY FOR THE YEARS 2000-2014

Year (1)	Annual Sendout (MG) (2)	Average Day (MGD) (3)	Peak Day (MGD) (4)	Date (5)	Max Day Ratio (6)	Max Hour (MGD)	Max Hour Ratio
2014	13,955	38.23	56.89	7/12	1.49	91.800	2.40
2013	13,271	36.36	52.66	9/29	1.45	84.100	2.31
2012	14,310	39.21	68.95	6/30	1.76	96.900	2.47
2011	13,785	37.77	55.82	6/8	1.48	78.900	2.09
2010	14,817	40.60	61.36	9/23	1.51	93.650	2.31
2009	13,905	38.09	53.40	7/17	1.40	76.652	2.01
2008	15,644	42.86	63.09	8/21	1.47	96.576	2.25
2007	15,734	43.11	64.30	6/15	1.49	84.092	1.95
2006	15,619	42.79	67.22	8/7	1.57	82.652	1.93
2005	16,068	44.02	69.65	8/2	1.58	109.398	2.49
2004	14,931	40.91	56.89	6/29	1.39	76.750	1.88
2003	15,005	41.11	61.37	7/8	1.49	83.630	2.03
2002	15,956	43.72	71.82	8/5	1.64	107.500	2.46
2001	14,962	40.99	56.04	6/19	1.37	91.620	2.24
2000	14,565	39.90	66.37	6/13	1.66	85.076	2.13

KENTUCKY AMERICAN WATER COMPANY

BASIS FOR ALLOCATING DEMAND RELATED COSTS OF FIRE SERVICE TO PRIVATE AND PUBLIC FIRE PROTECTION CUSTOMER CLASSIFICATIONS

Description (1)	Restrictive Diameters Squared (2)	Quantity (3)	Relative Demand* (4)=(2)x(3)	Allocation Factor (5)
PRIVATE FIRE PROTECTION				
Fire Lines				
2 -inch	4.0	69	414	
3 -inch	9.0	0	0	
4 -inch	16.0	420	10,080	
6 -inch	36.0	912	49,248	
8 -inch	64.0	285	27,360	
10 -inch	100.0	9	1,350	
12 -inch	144.0	5	1,080	
14 -inch	196.0	0	0	
16 -inch	256.0	1	384	
Private Hydrants	27.6	1,135	46,989	
Total Private Fire Protection		2,836	136,905	0.4620
PUBLIC FIRE PROTECTION				
4 -1/4 inch w/ 2-2 1/2, 1-4 1/2	20.3	6,493	131,808	
5 -1/4 inch w/ 2-2 1/2, 1-4 1/2	27.6	1,000	27,600	
Total Public Fire Prorection		7,493	159,408	0.5380
Total Fire Protection		10,329	296,313	1.0000

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* Relative Demand for Private Fire lines and hydrants are calculated at 1.5 times the Public Fire Relative Demand.

PART III. PROPOSED CUSTOMER RATES

KENTUCKY-AMERICAN WATER COMPANY

CALCULATION OF MONTHLY SERVICE CHARGES

Cost Function (1)	Cost of Service (2)	Number of Units (3)	Description (4)	Cost Per Unit Per Month (5)
Meters	$ 9,796,558	141,297	5/8-inch meter equivalents	$ 5.78
Services	4,448,795	137,002	3/4-inch service equivalents	2.71
Billing & Collecting	9,362,059	126,687	Number of customers	6.16
Unrecovered Public Fire	342,851	141,297	5/8-inch meter equivalents	0.20
Total	$ 23,950,263			$ 14.85

Meter Size (1)	Capacity Ratio	Present Rate	Proposed Rate
5/8-inch	1.0	$ 12.49	$ 14.85
3/4-inch	1.5	18.74	22.30
1-inch	2.5	31.23	37.10
1-1/2-inch	5.0	62.45	74.30
2-inch	8.0	99.92	118.80
3-inch	15.0	187.35	222.80
4-inch	25.0	312.25	371.30
6-inch	50.0	624.50	742.50
8-inch	80.0	999.20	1,188.00

KENTUCKY-AMERICAN WATER COMPANY

COMPARISON OF PRESENT AND PROPOSED RATES

Meter Charges, Per Month

Meter Size	Present Rate	Proposed Rate
5/8	$ 12.49	$14.85
3/4	18.74	22.30
1	31.23	37.10
1-1/2	62.45	74.30
2	99.92	118.80
3	187.35	222.80
4	312.25	371.30
6	624.50	742.50
8	999.20	1,188.00

	Per Thousand Gallons		Per CCF	
Consumption Charges:	Present	Proposed	Present	Proposed
Residential	$ 5.3004	$ 6.1820	$ 3.9647	$ 4.6241
Commercial	$ 4.8280	$ 5.3840	$ 3.6113	$ 4.0272
Industrial	$ 3.8947	$ 4.7550	$ 2.9132	$ 3.5567
Other Public Authority	$ 4.2452	$ 4.9900	$ 3.1754	$ 3.7325
Sales for Resale	$ 4.2093	$ 4.4510	$ 3.1486	$ 3.3293

Fire Protection:

Private Fire Line Size	Present Rate Per Month	Proposed Rate Per Month
2	$ 8.92	$ 9.37
4	35.90	37.70
6	80.74	84.78
8	143.54	150.72
10	224.34	235.56
12	323.50	339.68
14	439.89	461.88
16	574.42	603.14
PrivateFire Hydrant	79.77	79.77
Public Fire Hydrant	$ 41.60	$ 48.00