

American Water Works Company, Inc.

Form 10-Q

May 04, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from                      to

Commission file: number 001-34028

**AMERICAN WATER WORKS COMPANY, INC.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>51-0063696</b> (I.R.S. Employer Identification No.)
<b>1025 Laurel Oak Road, Voorhees, NJ</b> (Address of principal executive offices)	<b>08043</b> (Zip Code)
<b>(856) 346-8200</b> (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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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 28, 2011
Common Stock, \$0.01 par value per share	175,356,140 shares

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**AMERICAN WATER WORKS COMPANY, INC.**

**REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2011**

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**Table of Contents****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, 2011	December 31, 2010
<b>ASSETS</b>		
Property, plant and equipment		
Utility plant at original cost, net of accumulated depreciation of \$3,229,600 at March 31 and \$3,182,944 at December 31	\$ 10,421,125	\$ 10,353,478
Nonutility property, net of accumulated depreciation of \$153,032 at March 31 and \$143,051 at December 31	134,573	143,046
<b>Total property, plant and equipment</b>	<b>10,555,698</b>	<b>10,496,524</b>
Current assets		
Cash and cash equivalents	13,528	13,112
Restricted funds	80,443	94,066
Utility customer accounts receivable	138,317	148,110
Allowance for uncollectible accounts	(14,902)	(17,801)
Unbilled utility revenues	128,526	135,963
Other receivables, net	60,251	74,078
Income taxes receivable	5,680	0
Materials and supplies	30,606	28,203
Assets of discontinued operations	801,184	796,713
Other	61,906	46,929
<b>Total current assets</b>	<b>1,305,539</b>	<b>1,319,373</b>
Regulatory and other long-term assets		
Regulatory assets	991,797	984,577
Restricted funds	20,234	26,718
Goodwill	1,204,227	1,204,227
Other	51,312	48,354
<b>Total regulatory and other long-term assets</b>	<b>2,267,570</b>	<b>2,263,876</b>
<b>TOTAL ASSETS</b>	<b>\$ 14,128,807</b>	<b>\$ 14,079,773</b>

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

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

	March 31, 2011	December 31, 2010
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization		
Common stock (\$.01 par value, 500,000 shares authorized, 175,347 and 174,996 shares outstanding at March 31 and December 31, respectively)	\$ 1,753	\$ 1,750
Paid-in-capital	6,164,883	6,156,675
Accumulated deficit	(1,950,571)	(1,959,235)
Accumulated other comprehensive loss	(69,958)	(71,446)
Treasury stock	0	(19)
Common stockholders' equity	4,146,107	4,127,725
Preferred stock without mandatory redemption requirements	4,547	4,547
Total stockholders' equity	4,150,654	4,132,272
Long-term debt		
Long-term debt	5,362,325	5,409,405
Redeemable preferred stock at redemption value	23,267	23,271
Total capitalization	9,536,246	9,564,948
Current liabilities		
Short-term debt	323,484	229,018
Current portion of long-term debt	12,168	36,146
Accounts payable	132,725	195,479
Taxes accrued, including income taxes of \$0 at March 31 and December 31	65,291	43,852
Interest accrued	103,622	60,865
Liabilities of discontinued operations	330,840	335,232
Other	166,750	183,302
Total current liabilities	1,134,880	1,083,894
Regulatory and other long-term liabilities		
Advances for construction	408,701	403,163
Deferred income taxes	1,136,432	1,088,989
Deferred investment tax credits	30,588	30,974
Regulatory liabilities	299,544	299,213
Accrued pension expense	392,944	421,937
Accrued postretirement benefit expense	214,816	215,612
Other	42,301	42,185
Total regulatory and other long-term liabilities	2,525,326	2,502,073
Contributions in aid of construction	932,355	928,858
Commitments and contingencies (See Note 9)		

<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	\$ 14,128,807	\$ 14,079,773
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The accompanying notes are an integral part of these consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Operating revenues	\$ 610,936	\$ 566,762
Operating expenses		
Operation and maintenance	320,571	305,642
Depreciation and amortization	88,019	82,056
General taxes	57,205	54,486
Loss (gain) on sale of assets	268	(71)
Total operating expenses, net	466,063	442,113
Operating income	144,873	124,649
Other income (expenses)		
Interest, net	(76,482)	(78,696)
Allowance for other funds used during construction	2,916	2,146
Allowance for borrowed funds used during construction	1,242	1,382
Amortization of debt expense	(1,295)	(1,201)
Other, net	(1,141)	69
Total other income (expenses)	(74,760)	(76,300)
Income from continuing operations before income taxes	70,113	48,349
Provision for income taxes	28,649	18,669
Income from continuing operations	41,464	29,680
Income from discontinued operations, net of tax	5,868	1,128
Net income	\$ 47,332	\$ 30,808
Other comprehensive income, net of tax:		
Pension plan amortized to periodic benefit cost:		
Prior service cost, net of tax of \$28 and \$12, respectively	44	20
Actuarial loss, net of tax of \$720 and \$698, respectively	1,126	1,092
Foreign currency translation adjustment	318	362
Other comprehensive income	1,488	1,474
Comprehensive income	\$ 48,820	\$ 32,282
Basic earnings per common share:		
Income from continuing operations	\$ 0.24	\$ 0.17
Income from discontinued operations, net of tax	\$ 0.03	\$ 0.01

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Net income	\$ 0.27	\$ 0.18
Diluted earnings per common share:		
Income from continuing operations	\$ 0.24	\$ 0.17
Income from discontinued operations, net of tax	\$ 0.03	\$ 0.01
Net income	\$ 0.27	\$ 0.18
Average common shares outstanding during the period:		
Basic	175,259	174,720
Diluted	176,048	174,796
Dividends per common share	\$ 0.22	\$ 0.21

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



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

(In thousands, except per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 47,332	\$ 30,808
Adjustments		
Depreciation and amortization	88,019	82,056
Provision for deferred income taxes	40,657	42,177
Amortization of deferred investment tax credits	(386)	(391)
Provision for losses on utility accounts receivable	1,589	3,357
Allowance for other funds used during construction	(2,916)	(2,146)
Loss (gain) on sale of assets	268	(71)
Pension and non-pension post retirement benefits	17,860	22,336
Other, net	(12,064)	1,014
Changes in assets and liabilities		
Receivables and unbilled utility revenues	26,070	14,036
Income taxes receivable	(5,680)	(14,644)
Other current assets	(18,099)	(11,052)
Pension and non-pension post retirement benefit contributions	(48,803)	(37,780)
Accounts payable	(26,244)	(18,268)
Taxes accrued, including income taxes	21,621	20,827
Interest accrued	42,758	43,807
Other current liabilities	(10,456)	(76)
Net cash provided by operating activities	161,526	175,990
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(176,411)	(142,682)
Acquisitions	(1,445)	(528)
Proceeds from sale of assets and securities	158	87
Removal costs from property, plant and equipment retirements, net	(8,597)	(5,910)
Net funds released	20,107	11,251
Net cash used in investing activities	(166,188)	(137,782)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	298	1,101
Repayment of long-term debt	(62,637)	(38,001)
Net borrowings under short-term debt agreements	135,217	53,592
Proceeds from employee stock plan issuances	6,694	801
Advances and contributions for construction, net of refunds of \$4,072 and \$11,941 at March 31, 2011 and 2010	5,111	(3,170)
Change in bank overdraft position	(40,528)	(25,196)
Debt issuance costs	(552)	(269)
Redemption of preferred stocks	0	(10)
Dividends paid	(38,525)	(36,679)
Net cash provided by (used in) financing activities	5,078	(47,831)

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Net increase (decrease) in cash and cash equivalents	416	(9,623)
Cash and cash equivalents at beginning of period	13,112	22,256
Cash and cash equivalents at end of period	\$ 13,528	\$ 12,633
<b>Non-cash investing activity:</b>		
Capital expenditures acquired on account but unpaid at quarter-end	\$ 66,306	\$ 55,699
<b>Non-cash financing activity:</b>		
Advances and contributions	\$ 5,822	\$ 7,554

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

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

(In thousands, except per share data)

	Common Stock				Accumulated Other Comprehensive Loss	Treasury Stock		Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Total Stockholders Equity
	Shares	Par Value	Paid-in Capital	Accumulated Deficit		Shares	At Cost		
<b>Balance at December 31, 2010</b>	174,996	\$ 1,750	\$ 6,156,675	\$ (1,959,235)	\$ (71,446)	(1)	\$ (19)	\$ 4,547	\$ 4,132,272
Net income				47,332					47,332
Direct stock reinvestment and purchase plan (DRIP), net of expense of \$5	18	0	485						485
Employee stock purchase plan (ESPP)	29	0	751						751
Stock-based compensation activity	304	3	6,972	(143)		1	19		6,851
Other comprehensive income, net of tax of \$748					1,488				1,488
Dividends				(38,525)					(38,525)
<b>Balance at March 31, 2011</b>	175,347	\$ 1,753	\$ 6,164,883	\$ (1,950,571)	\$ (69,958)	0	\$ 0	\$ 4,547	\$ 4,150,654

  

	Common Stock				Accumulated Other Comprehensive Loss	Treasury Stock		Preferred Stock of Subsidiary Companies Without Mandatory Redemption Requirements	Total Stockholders Equity
	Shares	Par Value	Paid-in Capital	Accumulated Deficit		Shares	At Cost		
<b>Balance at December 31, 2009</b>	174,630	\$ 1,746	\$ 6,140,077	\$ (2,076,287)	\$ (64,677)	0	\$ 0	\$ 4,557	\$ 4,005,416
Net income				30,808					30,808
Direct stock reinvestment and purchase plan (DRIP), net of expense of \$56	0	0	(53)						(53)
Employee stock purchase plan (ESPP)	23	0	558			7	127		685
Stock-based compensation activity	40	1	2,081	(105)		(7)	(127)		1,850
Preferred stock redemption								(10)	(10)
Other comprehensive income, net of tax of \$710					1,474				1,474
Dividends				(36,679)					(36,679)
<b>Balance at March 31, 2010</b>	174,693	\$ 1,747	\$ 6,142,663	\$ (2,082,263)	\$ (63,203)	0	\$ 0	\$ 4,547	\$ 4,003,491

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

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

#### **Notes to Consolidated Financial Statements (Unaudited)**

**(In thousands, except per share data)**

##### **Note 1: Basis of Presentation**

The accompanying Consolidated Balance Sheet of American Water Works Company, Inc. and Subsidiary Companies (the Company) at March 31, 2011, the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2011 and 2010, the Consolidated Statements of Cash flows for the three months ended March 31, 2011 and 2010, and the Consolidated Statement of Changes in Stockholders' Equity for the three months ended March 31, 2011 and 2010, 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, 2010. 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 for discontinued operations (see Note 13) and to present amortization associated with removal costs as depreciation and amortization have been made to conform previously reported data to the current presentation.

##### **Note 2: New Accounting Pronouncements**

The following recently announced 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:

##### **Revenue arrangements with Multiple Deliverables**

In October 2009, the 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. The guidance is expected to result in more multiple-deliverable arrangements being separable than under current guidance. This guidance is 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 specifies 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 expand 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 for the Company 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 an 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 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

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amount. This guidance is 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.

### **Note 3: Goodwill**

At December 31, 2010, the Company's goodwill totaled \$1,250,692. During the first quarter of 2011, with the pending sale of the Company's regulated businesses in Arizona, New Mexico and Texas, the Company allocated \$46,465 of goodwill to discontinued

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operations, and reclassified all prior periods for that effect. At March 31, 2011, the Company's goodwill of continuing operations totaled \$1,204,227.

The Company's annual goodwill impairment test is conducted at November 30 of each calendar year and 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. In the first quarter of 2011, the Company assessed fair value, including allocated goodwill, and recorded an impairment of \$561 for the Texas assets in operating results of discontinued operations. (see Note 13)

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

	Regulated Unit		Market-Based Operations		Cost	Consolidated Accumulated Impairment	Total Net
	Cost	Accumulated Impairment	Cost	Accumulated Impairment			
Balance at January 1, 2011	\$ 3,519,484	\$ (2,443,628)	\$ 235,990	\$ (107,619)	\$ 3,755,474	\$ (2,551,247)	\$ 1,204,227
Reclassifications and other activity	0				0		0
<b>Balance at March 31, 2011</b>	<b>\$ 3,519,484</b>	<b>\$ (2,443,628)</b>	<b>\$ 235,990</b>	<b>\$ (107,619)</b>	<b>\$ 3,755,474</b>	<b>\$ (2,551,247)</b>	<b>\$ 1,204,227</b>
Balance at January 1, 2010	\$ 3,425,700	\$ (2,349,880)	\$ 235,715	\$ (107,619)	\$ 3,661,415	\$ (2,457,499)	\$ 1,203,916
Reclassifications and other activity	36				36		36
<b>Balance at March 31, 2010</b>	<b>\$ 3,425,736</b>	<b>\$ (2,349,880)</b>	<b>\$ 235,715</b>	<b>\$ (107,619)</b>	<b>\$ 3,661,451</b>	<b>\$ (2,457,499)</b>	<b>\$ 1,203,952</b>

The Company may 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. Recognition of impairments of a significant portion of goodwill would negatively affect the Company's reported results of operations and total capitalization, the effect of which could be material and could make it more difficult for the Company to maintain its credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

**Note 4: Stockholders' Equity****Common Stock**

In March 2010, the Company registered 5,000 shares of the Company's common stock issuable under American Water Stock Direct, a dividend reinvestment and direct stock purchase plan (the "DRIP"). Under the DRIP, stockholders may reinvest cash dividends and purchase additional Company common stock, up to certain limits, through a transfer agent without commission fees. The Company's transfer agent may buy newly issued shares directly from the Company or shares held in the Company's treasury. The transfer agent may also buy shares in the public markets or in privately negotiated transactions. Purchases generally will be made and credited to DRIP accounts once each week. As of March 31, 2011, there were 4,919 shares available for future issuance under the DRIP. The following table summarizes information regarding issuances under the DRIP during the three months ended March 31, 2011 and 2010:

	2011	2010
Shares of common stock issued	18	0
Cash proceeds received	\$ 490	\$ 3

Cash dividend payments made during the three months ended March 31, 2011 and 2010 were as follows:

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	2011	2010
Dividend per share	\$ 0.22	\$ 0.21
Total dividends paid	38,525	36,679

On April 29, 2011, the Company declared a quarterly cash dividend payment of \$0.22 per share payable on June 1, 2011 to all shareholders of record as of May 18, 2011.



**Table of Contents****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, 2011, a total of 10,896 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 three months ended March 31, 2011 and 2010:

	2011	2010
Stock options	\$ 826	\$ 905
Restricted stock units	1,205	1,203
Employee stock purchase plan	97	86
Stock-based compensation in operation and maintenance expense	2,128	2,194
Income tax benefit	(830)	(856)
After-tax stock-based compensation expense	\$ 1,298	\$ 1,338

There were no significant stock-based compensation costs capitalized during the three months ended March 31, 2011 and 2010, respectively.

**Stock Options**

In the first quarter of 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 January 1, 2011. 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 pricing model for 2011 grants and the resulting weighted average grant date fair value per share of stock options granted:

Dividend yield	3.25%
Expected volatility	29.32%
Risk-free interest rate	1.93%
Expected life (years)	4.35
Exercise price	\$ 27.08
Grant date fair value per share	\$ 5.14

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, 2011, \$5,796 of total unrecognized compensation cost related to the non-vested stock options is expected to be recognized over the weighted-average period of 2.1 years.

The table below summarizes stock option activity for the three months ended March 31, 2011:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2011	2,870	\$ 21.38		

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Granted	736		27.08		
Forfeited or expired	(17)		21.13		
Exercised	(261)		21.28		
Options outstanding at March 31, 2011	3,328	\$	22.65	5.07	\$ 17,960
Exercisable at March 31, 2011	1,848	\$	21.33	4.25	\$ 12,416

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The following table summarizes additional information regarding stock options exercised during the three months ended March 31, 2011 and 2010.

	<b>2011</b>	<b>2010</b>
Intrinsic value	\$ 1,523	\$ 13
Exercise proceeds	5,549	185

**Restricted Stock Units**

In the first quarter of 2011, the Company granted restricted stock units to certain employees under the Plan. The restricted stock units vest ratably over the three-year performance period beginning January 1, 2011 (the Performance Period); however, distribution of the 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 performance and service conditions are valued at the market value of the Company's common stock on the date of grant. The restricted stock units granted with market and service conditions are valued using a Monte Carlo model. Weighted average assumptions used in the Monte Carlo simulation are as follows for the 2011 grants.

Expected volatility	29.50%
Risk-free interest rate	1.24%
Expected life (years)	3

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The grant date fair value of the restricted stock awards that have (a) market and/or performance and service conditions and (b) vest ratably is amortized through expense over the requisite service period using the graded-vesting method. As of March 31, 2011, \$6,335 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, 2011.

	Shares	Weighted Average Grant Date Fair Value (per share)
Non-vested total at January 1, 2011	479	\$ 22.60
Granted	189	30.01
Distributed	(67)	21.49
Forfeited	(4)	22.22
Undistributed vested awards	(6)	21.50
Non-vested total at March 31, 2011	591	\$ 25.11

The following table summarizes additional information regarding restricted stock units distributed during the three months ended March 31, 2011 and 2010.

	2011	2010
Intrinsic value	\$ 1,695	\$ 894
Income tax benefit	99	14

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 \$143 and \$105 to retained earnings during the three months ended March 31, 2011 and 2010, respectively.

**Employee Stock Purchase Plan**

Under the Nonqualified Employee Stock Purchase Plan (the "ESPP"), employees can use payroll deductions to acquire Company stock at the lesser of 90% of the fair market value of (a) the beginning or (b) the end of each three-month purchase period. As of March 31, 2011 there were 1,684 shares of common stock reserved for issuance under the ESPP. During the three months ended March 31, 2011, the Company issued 29 shares under the ESPP.

**Note 5: Long-Term Debt**

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

	Rate	Weighted Average Rate	Maturity Date	March 31, 2011	December 31, 2010
Long-term debt of American Water Capital Corp. (AWCC)(a)					
Private activity bonds and government funded debt					
Fixed rate	4.85%-6.75%	5.72%	2018-2040	\$ 322,610	\$ 322,610

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Fixed rate	5.39%-10.00%	6.26%	2011-2040	3,089,655	3,117,696
Long-term debt of other subsidiaries					
Private activity bonds and government funded debt					
Fixed rate	0.00%-6.20%	5.10%	2011-2039	1,201,907	1,202,994
Mortgage bonds					
Fixed rate	5.48%-9.71%	7.40%	2011-2039	711,645	744,691
Mandatory redeemable preferred stock	4.60%-9.75%	8.40%	2013-2036	23,989	23,989
Notes payable and other(b)	8.82%-14.57%	12.02%	2011-2026	2,045	5,689
Long-term debt				5,351,851	5,417,669
Unamortized debt discount, net(c)				47,241	51,498
Fair value adjustment to interest rate hedge				(1,332)	(345)
Total long-term debt				\$ 5,397,760	\$ 5,468,822

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- (a) AWCC, a wholly-owned subsidiary of the Company, has a strong support agreement with its parent, which under certain circumstances, is the functional equivalent of a guarantee.
- (b) Includes capital lease obligations of \$1,432 and \$5,076 at March 31, 2011 and December 31, 2010, respectively.
- (c) Includes fair value adjustments previously recognized in acquisition purchase accounting.

The following long-term debt was issued in 2011:

Company	Type	Interest Rate	Maturity	Amount
Other subsidiaries	Private activity bonds and government funded debt fixed rate	0.00%	2021	\$ 298
Total issuances				\$ 298

The following long-term debt was retired through optional redemption or payment at maturity during 2011:

Company	Type	Interest Rate	Maturity	Amount
American Water Capital Corp.	Senior notes fixed rate	6.00%-6.87%	2011-2039	\$ 28,041
Other subsidiaries	Mortgage bonds fixed rate	8.21%-9.71%	2011-2022	33,046
Other subsidiaries	Private activity bonds and government funded debt	0.00%-5.90%	2011-2030	1,393
Other	Capital leases			3,644
Total retirements & redemptions				\$ 66,124

Included in the capital lease redemptions above is a non-cash redemption of \$3,487 associated with a cancelled sublease and a capital lease arrangement.

Interest, net includes interest income of approximately \$2,676 and \$2,305 for the three months ended March 31, 2011 and 2010, respectively.

On July 12, 2010, the Company entered into an interest-rate swap to hedge \$100,000 of its 6.085% fixed-rate debt maturing 2017. The Company will pay variable interest of six-month LIBOR plus 3.422%. This fixed rate and pay variable rate interest swap is accounted for as a fair-value hedge. The swap matures with the fixed-rate debt in 2017. The Company uses a combination of fixed-rate and variable-rate debt to manage interest rate exposure.

At March 31, 2011 and December 31, 2010, the Company had a \$100,000 notional amount variable interest rate swap fair value hedge outstanding. The following table provides a summary of the derivative fair value balance recorded by the Company and the line item in the Consolidated Balance Sheet in which such amount is recorded:

Balance sheet classification	March 31, 2011	December 31, 2010
Regulatory and other long-term liabilities		
Other	\$ 2,051	\$ 898
Long-term debt		
Long-term debt	(1,332)	