TRIAD HOSPITALS INC
Form S-4
February 04, 2004
Table of Contents

As Filed with the Securities and Exchange Commission on February 4, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

TRIAD HOSPITALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**8062**	**75-2816101**
(State of or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

5800 Tennyson Parkway

Plano, Texas 75024

(214) 473-7000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Donald P. Fay, Esq.

Executive Vice President, General Counsel and Secretary

5800 Tennyson Parkway

Plano, Texas 75024

(214) 473-7000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Morton A. Pierce, Esq.

Michelle B. Rutta, Esq.

Dewey Ballantine LLP

1301 Avenue of the Americas

New York, New York 10019-6092

(212) 259-8000

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per Note	Proposed maximum aggregate offering price(1)	Amount of registration fee
7% Senior Subordinated Notes due 2013	$600,000,000	100%	$600,000,000	$ 76,020

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(f)(2)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective time until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED , 2004

PROSPECTUS

Triad Hospitals, Inc.

Offer to Exchange

$600 million aggregate principal amount of registered

7% Senior Subordinated Notes due 2013

for any and all of a like principal amount of outstanding unregistered

7% Senior Subordinated Notes due 2013

We are offering to exchange 7% senior subordinated notes due 2013 that have been registered under the Securities Act of 1933, as amended, which we refer to as the exchange notes, for any and all of the $600 million aggregate principal amount outstanding of our 7% senior subordinated notes due 2013 that were issued and sold by us on November 12, 2003 in a private offering exempt from registration under the Securities Act, which we refer to as the old notes.

Material Terms of this Exchange Offer

Expires 5:00 p.m., New York City time, on , 2004, unless extended.

Not subject to any condition other than that this exchange offer not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission and certain other customary conditions.

You may withdraw your tender of old notes at any time prior to the expiration of this exchange offer.

Affiliates of our company may not participate in this exchange offer.
The exchange of old notes should not be a taxable exchange for U.S. federal income tax purposes.

The terms of the exchange notes to be issued are substantially identical to the old notes, except for certain transfer restrictions and registration rights relating to the old notes.

We will not receive any proceeds from this exchange offer.

You may tender old notes only in denominations of $1,000 and multiples of $1,000.

We do not intend to apply for listing of the exchange notes on any securities exchange or to seek approval for quotation of the exchange notes through an automated quotation system.

Please refer to Risk Factors beginning on page 15 of this document for important information you should consider in connection with this exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange notes to be issued in this exchange offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus dated , 2004

Table of Contents

PROSPECTUS

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus contains disclosures which are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words such as may, believe, will, expect, project, estimate, antici or continue. See Summary, Risk Factors, Business Business Strategy and Management s Discussion and Analysis of Financial Condition an Results of Operations. These forward-looking statements are based on our current plans and expectations and are subject to a number of uncertainties and risks that could significantly affect our current plans and expectations and our future financial condition and results. These factors include, but are not limited to:

- the highly competitive nature of the healthcare business;
- the efforts of insurers and other payers, healthcare providers, and others to contain healthcare costs;
- possible changes in Medicare, Medicaid and other government programs that may further limit reimbursements to healthcare providers;
- changes in federal, state or local regulation affecting the healthcare industry;
- the possible enactment of federal or state healthcare reform;
- the ability to attract and retain qualified management and personnel, including physicians and nurses;
- the departure of key executive officers from our company;
- claims and legal actions relating to professional liabilities and other matters;
- fluctuations in the market value of our common stock;
- changes in accounting standards;
- changes in general economic conditions or geopolitical events;
- future acquisitions, joint venture developments or divestitures which may result in additional charges;
- the ability to enter into managed care provider arrangements on acceptable terms;
- the availability and terms of capital to fund the expansion of our business;

- changes in business strategy or development plans;
- our ability to obtain adequate levels of general and professional liability insurance;
- potential adverse impact of known and unknown government investigations; and
- timeliness of reimbursement payments received under government programs.

As a consequence, current plans, anticipated actions and our future financial condition and results may differ from those expressed in any forward-looking statements made by or on behalf of our company. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented herein. We do not undertake any obligation to update publicly or revise any forward-looking statements.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information appearing elsewhere in this prospectus and may not contain all of the information that is important to you. This prospectus includes the specific terms of the exchange notes we are offering, as well as information regarding our business and detailed financial data. In this prospectus, the terms we, us, our, our company and Triad refer to Triad Hospitals, Inc. and its subsidiaries, except where it is clear from the context that such term means only Triad Hospitals, Inc. In addition, in this prospectus, unless the context otherwise requires, the term notes refers to both the old notes that are the subject of this exchange offer and the exchange notes that will be issued in exchange for old notes in this exchange offer. Information regarding HCA Inc. that is included in this prospectus is derived from reports and other information filed by HCA with the Commission.

About Our Company

Who We Are

We are one of the largest publicly owned hospital companies in the United States and provide healthcare services through hospitals and ambulatory surgery centers that we own and operate in small cities and selected urban markets primarily in the southern, midwestern and western United States. Our hospital facilities include 57 general acute care hospitals and 15 ambulatory surgery centers located in the states of Alabama, Alaska, Arizona, Arkansas, California, Indiana, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Ohio, Oklahoma, Oregon, South Carolina, Texas and West Virginia. Included among these facilities is one hospital operated through a 50/50 joint venture that is not consolidated for financial reporting purposes, two hospitals under construction and two hospitals that we lease to a third party. We are also a minority investor in three joint ventures that own seven general acute care hospitals in Georgia and Nevada. Through our wholly-owned subsidiary, Quorum Health Resources, LLC, referred to as QHR, we also provide management and consulting services to independent general acute care hospitals located throughout the United States. For the year ended December 31, 2002, we had revenues, EBITDA and net income of $3,541.1 million, $538.1 million and $141.5 million, respectively, and for the nine months ended September 30, 2003, we had revenues, EBITDA and net income of $2,890.3 million, $390.0 million and $95.7 million, respectively. In the fourth quarter of 2003, we disposed of our interest in one entity and determined that two hospitals would be designated as held for sale. These entities will be reclassified as discontinued operations in the fourth quarter of 2003, with prior period financial results restated.

What We Do

Our general acute care hospitals typically provide a full range of services commonly available in hospitals, such as internal medicine, general surgery, cardiology, oncology, neurosurgery, orthopedics, obstetrics, diagnostic and emergency services. Our hospitals also generally provide outpatient and ancillary healthcare services such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology and physical therapy. Outpatient services also are provided by ambulatory surgery centers that we operate. In addition, some of our general acute care hospitals have a limited number of licensed psychiatric beds and provide psychiatric skilled nursing services.

In addition to providing capital resources and general management, we make available a variety of management services to our healthcare facilities. These services include ethics and compliance programs, national supply and equipment purchasing and leasing contracts, accounting, financial and clinical systems, governmental reimbursement assistance, information systems, legal support, personnel management, internal audit, access to regional managed care networks, resource management, and strategic and business planning.

2

Table of Contents

Our Mission

Our mission is to continuously improve the quality of healthcare services provided to the communities we serve by creating an environment that fosters physician participation, recognizes the value and contributions of our employees and strives to meet the unique healthcare needs of our local communities. Our objective is to provide quality healthcare services to our communities, while simultaneously generating strong financial performance and appropriate returns to our investors, through disciplined and balanced execution of a comprehensive business strategy that reinforces both quality of care and financial strength.

Our Business Strategy

Our business strategy combines an operating strategy devoted to working with providers, employees and communities and a capital strategy devoted to investing capital in a disciplined manner into internal and external development projects that enhance patient care and provide appropriate returns to our investors. We believe our business strategy differentiates us from many peers and competitors.

Our Operating Strategy

The foundation of our operating strategy is to work cooperatively and collaboratively with physicians, communities and employees in a manner that benefits all constituents. We actively involve local providers, local community leaders and our own employees in our critical decision making in order to enhance the quality of physicians practices, the quality of the healthcare environment in each community and the professional satisfaction of our employees. We believe this strategy results in increased volumes, rates and operating margins, and in external development opportunities with not-for-profit hospitals attracted to our operating strategy. Our collaborative operating strategy has several components:

Actively involve healthcare providers in decision making. We believe that working cooperatively and collaboratively with physicians to develop and maintain strong, mutually beneficial relationships with them leads to improved physician satisfaction, resource management and quality of care. We believe that this results in higher volumes, rates and operating margins and in external development opportunities. To reinforce the collaboration, we have established in each market a Physician Leadership Group, or PLG, consisting of leading physicians who practice at our local hospitals. Each PLG meets monthly with corporate and hospital management to establish local priorities and address physician concerns. A national Physician Leadership Group, consisting of representatives from the local PLGs, meets regularly with members of our corporate management to address broader corporate and national objectives. Our corporate management includes a team of experienced physicians who focus entirely on maintaining our physician relations. We also believe the PLGs generate and facilitate external development opportunities as more physicians and not-for-profit-hospitals are able to learn through physician word-of-mouth about our operating strategy of working collaboratively with providers.

Similarly, we believe that working cooperatively and collaboratively with our nurses and other employees to develop and maintain strong, mutually beneficial relationships with them leads to improved satisfaction, morale and retention of our employees, as well as better quality of care for our patients. We believe that this leads to higher patient satisfaction, volumes, rates and operating margins. In each of our markets, we have a Nursing Leadership Group, or NLG, chaired by the facility Chief Nursing Officer and comprising facility nurses who work with corporate and hospital management to establish local priorities and company-wide best practices for nursing care. A national Nursing Leadership Group, consisting of representatives from the local NLGs, addresses broader corporate and national objectives with members of our corporate management team. We have also created Departmental Operations Committees that address key clinical and support functions represented by specific hospital departments, including radiology, dietary and plant operations. Members, chosen for their leadership qualities demonstrated at our facilities, meet regularly to share best practices and other initiatives, both locally and nationally.

Table of Contents

Actively involve communities in decision making. Our community philosophy is a simple one: our stockholders own the bricks and mortar, but the hospitals effectively belong to the communities we serve. We seek to have each community embrace its hospital as an important local asset in order to make the facility successful. To that end, we have local Boards of Trustees consisting solely of local physicians and community leaders. We empower each local Board of Trustees with responsibilities related to strategic and capital planning and overall supervision of the quality of care provided to the community. By involving local communities in key decisions affecting their hospitals, we believe we can achieve higher volumes, rates and operating margins.

Actively partner with not-for-profit hospitals. An integral part of our operating strategy is to be a preferred partner for the not-for-profit hospitals that comprise approximately 85% of the nation s acute care hospitals. For not-for-profit hospitals, we offer three alternatives for potentially improving their performance: contract management, consulting services and capital partnership. We believe that these relationships can result in attractive growth opportunities that are consistent with, and that reinforce, the other components of our business strategy.

We provide management and consulting services through our QHR subsidiary to over 200 not-for-profit hospitals in the United States. These are typically independent hospitals in rural communities who we believe benefit from the management infrastructure QHR provides, infrastructure that they might not otherwise afford on their own.

We also provide an attractive alternative to any not-for-profit hospital that needs capital. We can either buy its hospital or partner with it in a joint venture, often for the purpose of developing a new or replacement hospital for the community. We believe we often have a competitive advantage over some of our peers and competitors in buying or partnering with not-for-profit hospitals as a result of:

- our operating strategy of working cooperatively and collaboratively with physicians, employees and communities, which appeals to many not-for-profits;
- our QHR management subsidiary s relationship and reputation with leading not-for-profits nationwide; and
- our flexibility regarding shared governance and ownership with not-for-profits through joint ventures with those who prefer to retain some ownership rather than sell.

Our Capital Strategy

Our capital strategy consists of the disciplined investment of capital for routine maintenance projects as well as internal and external development projects intended to grow volumes, rates and operating margins. Except for routine maintenance projects, our capital projects are typically projected to generate a return greater than the weighted average cost of capital for that project. We are, however, willing to trade short-term returns for longer-term returns that we believe will be superior.

For existing facilities, we currently expect to spend approximately $115 to 125 million annually on routine maintenance capital expenditures for structural and cosmetic repairs at our facilities. We also identify and invest in expansion opportunities where we perceive that demand is not being adequately met due to population growth or insufficient existing healthcare services. Expansion opportunities may include adding beds, adding operating rooms or introducing specialty services in order to meet demand and decrease outmigration.

For external development, we pursue acquisition opportunities, but only selectively and opportunistically. In situations where sellers are concerned solely with obtaining the highest price, especially in an auction, we generally do not have a competitive advantage over others and thus generally do not prevail.

[Table of Contents](#)

However, in situations where sellers also place value on our collaborative culture and strategy, we believe we often have a competitive advantage and sometimes can prevail, even in an auction, and even when we may not submit the highest financial offer. We also build new hospitals, either on our own or in partnership with not-for-profit hospitals, especially in small-city markets with populations of 50,000-200,000 and in other markets that tend to be most receptive to our strategy of working collaboratively with providers and communities. We also build replacement facilities for existing facilities, usually by becoming a capital partner with a not-for-profit hospital that lacks capital to rebuild an old or aging facility but has a favorable clinical reputation and market position.

Our principal executive offices are located at 5800 Tennyson Parkway, Plano, Texas 75024, and our phone number is (214) 473-7000. Our corporate website address is http://www.triadhospitals.com. Information contained on our website is not part of this prospectus.

Table of Contents

Summary of the Exchange Offer

Background	On November 12, 2003, we issued $600 million aggregate principal amount of 7% Senior Subordinated Notes due 2013 in a private offering. These old notes were not registered under the Securities Act. In connection with the offering of the old notes, we entered into a registration rights agreement with the initial purchasers of the old notes, dated November 12, 2003, which we refer to as the registration rights agreement, in which we agreed to offer to exchange your old notes for new notes which have been registered under the Securities Act. This exchange offer is intended to satisfy that obligation.
Securities Offered	$600,000,000 aggregate principal amount of 7% Senior Subordinated Notes due 2013 which we have registered under the Securities Act.
Issuer	Triad Hospitals, Inc.
The Exchange Offer	We are offering to exchange $1,000 principal amount of exchange notes for each $1,000 principal amount of your old notes. The terms of the old notes and the exchange notes are identical in all material respects, except that the exchange notes do not restrict transfer and do not include exchange or registration rights. After this exchange offer is completed, you will no longer be entitled to any exchange or registration rights with respect to your old notes. Under limited circumstances, certain holders of outstanding old notes may require us to file a shelf registration statement under the Securities Act. As of this date, there is $600 million aggregate principal amount of old notes outstanding.
Required Representations	In order to participate in this exchange offer, you will be required to make certain representations to us in a letter of transmittal, including that: any exchange notes will be acquired by you in the ordinary course of your business; you have no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the exchange notes; and you are not our affiliate as defined under Rule 405 of the Securities Act.
Resale	Based upon the existing interpretations of the staff of the Commission as described in several no-action letters to other issuers regarding similar exchange offers, we believe that the exchange notes issued in this exchange offer can be freely traded by you without compliance with the registration and prospectus delivery provisions of the Securities Act provided that: the exchange notes issued in this exchange offer are being acquired in the ordinary course of your business;

Table of Contents

	you are not participating, do not intend to participate and have no arrangement or understanding with any person to participate in the distribution of the notes issued to you in this exchange offer; and you are not our affiliate as defined under Rule 405 of the Securities Act. If our belief is inaccurate and you transfer any exchange note issued to you in this exchange offer without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your exchange notes from such requirements, you may incur liability under the Securities Act. We do not assume, or indemnify you against, such liability. Each participating broker-dealer that is issued exchange notes in this exchange offer for its own account in exchange for old notes which were acquired by such participating broker-dealer as a result of market-making or other trading activities, must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes issued in this exchange offer. We have agreed in the registration rights agreement that a participating broker-dealer may use this prospectus for an offer to resell, resale or other retransfer of the exchange notes issued to it in this exchange offer. We do not intend to apply for listing of the exchange notes on any securities exchange or to seek approval for quotation of the exchange notes through an automated quotation system. Accordingly, there can be no assurance that an active market will develop upon completion of this exchange offer or, if developed, that such market will be sustained or as to the liquidity of any market.
Expiration Date	This exchange offer will expire at 5:00 p.m., New York City time, on , 2004, unless extended, in which case the term expiration date shall mean the latest date and time to which we extend this exchange offer.
Conditions to the Exchange Offer	This exchange offer is subject to certain customary conditions, which may be waived by us. This exchange offer is not conditioned upon any minimum principal amount of old notes being tendered.
Procedures for Tendering Your Old Notes	If you wish to tender your old notes for exchange pursuant to this exchange offer, you must do one of the following on or before the expiration date: make a book-entry transfer of your old notes into the exchange agent s account at The Depository Trust Company

7

Table of Contents

	and either transmit a properly completed and duly executed letter of transmittal, which accompanies this prospectus, or a manually signed facsimile of the letter of transmittal, together with any other required documentation, to the exchange agent at the address set forth in this prospectus under The Exchange Offer Exchange Agent, and on the front cover of the letter of transmittal, or transmit a computer generated message transmitted by means of The Depository Trust Company s Automated Tender Offer Program system and received by the exchange agent and forming a part of a confirmation of book entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal; or transmit the certificates for your old notes and a properly completed and duly executed letter of transmittal, or a manually signed facsimile of the letter of transmittal, together with any other required documentation, to the exchange agent.
	If either of these procedures cannot be satisfied on a timely basis, then you should comply with the guaranteed delivery procedures described below.
	By executing the letter of transmittal, each holder of notes will make representations to us described under The Exchange Offer Procedures for Tendering.
Special Procedures for Beneficial Owners	
	If you are a beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in this exchange offer, you should contact such registered holder promptly and instruct such registered holder to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your old notes, either make appropriate arrangements to register ownership of the old notes in your name or obtain a properly completed bond power from the registered holder.
	The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.
Guaranteed Delivery Procedures	If you wish to tender your old notes and time will not permit the documents required by the letter of transmittal to reach the exchange agent prior to the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you must tender your old notes according to the guaranteed delivery procedures described under The Exchange Offer Procedures for Tendering Guaranteed Delivery Procedures.

Table of Contents

Acceptance of Old Notes and Delivery of Exchange Notes	Subject to the conditions described under The Exchange Offer Conditions to the Exchange Offer, we will accept for exchange any and all old notes which are validly tendered in this exchange offer, and not withdrawn, prior to 5:00 p.m., New York City time, on the expiration date. We will issue the exchange notes as soon as practicable after the expiration date.
Withdrawal Rights	You may withdraw the tender of your old notes at any time prior to the expiration date, subject to compliance with the procedures for withdrawal described in this prospectus under The Exchange Offer Withdrawal Rights.
U.S. Federal Income Tax Considerations	For a summary of material federal income tax considerations relating to the exchange of old notes for exchange notes, see Material U.S. Federal Income Tax Considerations.
Exchange Agent	Citibank, N.A., the trustee under the indenture governing the notes, is serving as the exchange agent. The address, telephone number and facsimile number of the exchange agent are set forth in this prospectus under The Exchange Offer Exchange Agent.
Consequences of Failure to Exchange Old Notes	If you do not exchange your old notes for exchange notes pursuant to this exchange offer, you will continue to be subject to the restrictions on transfer provided in the old notes and in the indenture governing the notes. In general, the old notes may not be offered or sold, unless they are registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently intend to register the old notes under the Securities Act. See Risk Factors If you fail to exchange your old notes, they will continue to be restricted securities and may become less liquid.

Table of Contents

Summary of Terms of the Notes

The exchange notes are identical in all material respects to the old notes, except that the exchange notes will no longer contain transfer restrictions and holders of exchange notes will no longer have registration rights. The exchange notes will evidence the same debt as the old notes, which they replace, and will be governed by the same indenture.

Issuer	Triad Hospitals, Inc.
Notes	$600,000,000 aggregate principal amount of 7% Senior Subordinated Notes due 2013.
Maturity	November 15, 2013
Interest Payment Dates	May 15 and November 15, commencing on May 15, 2004.
Ranking	The notes are unsecured senior subordinated indebtedness. The notes rank senior in right of payment to any of our future subordinated indebtedness, equal in right of payment with any of our existing and future senior subordinated indebtedness and subordinated in right of payment to any of our existing and future senior indebtedness. In addition, the notes are effectively subordinated to our current and future secured indebtedness, to the extent of the value of the assets securing such indebtedness, and all existing and future indebtedness and other liabilities of our subsidiaries.
	As of September 30, 2003, after giving effect to the offering of the old notes and the use of proceeds therefrom, we would have had approximately $1,172.4 million of senior indebtedness including $568.0 million of secured indebtedness and approximately $4.4 million of indebtedness of our subsidiaries, excluding guarantees of other indebtedness of ours.
Optional Redemption	Prior to November 15, 2008, we may redeem all or any portion of the notes at a redemption price equal to 100% of principal amount plus the Applicable Redemption Premium described in this prospectus, plus accrued and unpaid interest to the redemption date. We may redeem the notes, in whole or in part, at any time on or after November 15, 2008 at our option at the redemption prices set forth herein under Description of the Notes Optional Redemption, plus accrued and unpaid interest to the redemption date.
Optional Redemption Upon Equity Offerings	
	On or before November 15, 2006, we may redeem up to 35% of the notes with the net proceeds of certain equity offerings at 107% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, if at least 65% of the aggregate principal amount of the originally issued notes remain outstanding. See Description of the Notes Redemption Optional Redemption.

10

Table of Contents

Certain Covenants	The indenture governing the notes contains certain covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to: incur additional indebtedness; sell assets; enter into certain transactions with affiliates; make certain restricted payments such as investments and dividends on or purchases of our capital stock; or merge or consolidate with or transfer all or substantially all of our assets to another entity.
Change in Control	Upon a change in control of our company, we will be required to offer to repurchase the notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. Our ability to repurchase the notes upon a change in control will be limited by the terms of our debt agreements. In addition, we cannot assure you that we will have the financial resources to repurchase the notes. See Description of the Notes Certain Covenants Purchase of Notes upon a Change in Control.
Use of Proceeds	We will not receive any net proceeds from this exchange offer.

Risk Factors

You should carefully consider all of the information in this prospectus. In particular, you should evaluate the specific risk factors under Risk Factors, which begins on page 15, for a discussion of certain risks that should be considered by investors in connection with this exchange offer.

Table of Contents

Summary Historical Information

We derived our summary historical financial information presented below from our historical financial statements. In the opinion of our management, the summary financial information as of and for each of the nine-month periods ended September 30, 2002 and September 30, 2003 reflects all adjustments, which consist only of normal recurring adjustments, necessary to present fairly our financial position and results of operations as of the applicable dates and for the applicable periods. Historical results are not necessarily indicative of the results to be expected in the future. In addition, interim results may not be indicative of the results to be expected in the future.

The information included in this section should be read in conjunction with our selected historical financial data included elsewhere in this prospectus and the historical consolidated financial statements and related notes contained in the annual report, and other information, that we have filed with the Commission and that are incorporated by reference in this prospectus. See Available Information for information on where you can obtain copies of information we have filed with the Commission.

	As of and for the Year Ended December 31,					As of and for the Nine Months Ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
	(in millions, except per share and statistical data)						
Summary of Operations:							
Revenues	$ 1,588.7	$ 1,329.1	$ 1,235.5	$ 2,669.5	$ 3,541.1	$ 2,622.1	$ 2,890.3
Income (loss) from operations (a)	(85.5)	(95.6)	4.4	6.0	141.5	105.8	95.7
Net income (loss) (a)(b)	(87.1)	(95.6)	4.4	2.8	141.5	105.8	95.7
Financial Position:							
Assets	$ 1,371.3	$ 1,341.1	$ 1,400.5	$ 4,165.3	$ 4,381.6	$ 4,354.3	$ 4,483.7
Long-term debt, including amounts due within one year	14.3	555.4	590.7	1,773.8	1,692.0	1,708.0	1,642.0
Intercompany balances payable to HCA	613.7						
Working capital	184.9	187.6	191.9	381.0	399.2	415.6	398.1
Capital expenditures	114.9	132.7	94.4	200.6	296.6	225.0	182.9
Stockholders equity	500.7	559.9	573.7	1,731.5	1,954.5	1,906.5	2,065.6
Operating Data:							
Cash flows from operating activities	$ 33.6	$ 155.2	$ 71.6	$ 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)					
	4,992,938	4,915,591					

Total common stockholders' equity		
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.

3

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 Shares	Common Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock At Cost	Total 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 Shares	Common Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock At Cost	Total 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	10	—	430	—	—	—	—	430
and purchase plan, net of								

expense of $8								
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.

6

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 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)

9

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	0.00%-5.30%	2015-2033	2,277

	funded debt—fixed rate			
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

12

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.

14

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:

		At Fair Value as of March 31, 2015			
	Carrying Amount	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

		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 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

16

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 simila 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.

19

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:

	For the Three Months Ended March 31, 2015 (In millions)
State	
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,							
			Increase				Increase	
	2015	2014	(Decrease)	Percentage	2015	2014	(Decrease)	Percentage
	Operating Revenues				Billed Water Sales Volume			
	(Dollars in thousands)				(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.

27

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
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* filed herewith.

35

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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