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American Water Works Company, Inc.
Form 10-K
February 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	51-0063696 (I.R.S. Employer Identification No.)
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1025 Laurel Oak Road, Voorhees, NJ (Address of principal executive offices)	08043 (Zip Code)
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(856) 346-8200

(Registrant's telephone number, including area code)

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

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

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

None.

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

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Small reporting company

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

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

Common Stock, \$0.01 par value—\$7,839,400,000 as of June 30, 2015 (solely for purposes of calculating this aggregate market value, American Water has defined its affiliates to include (i) those persons who were, as of June 30, 2015, its executive officers, directors or known beneficial owners of more than 10% of its common stock, and (ii) such other

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persons who were deemed, as of June 30, 2015, to be controlled by, or under common control with, American Water or any of the persons described in clause (i) above).

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

Common Stock, \$0.01 par value per share—178,008,765 shares as of February 19, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the American Water Works Company, Inc. definitive proxy statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015 are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

We have made statements in Item 1—Business, Item 1A—Risk Factors, and Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in other sections of this Annual Report on Form 10-K (“Form 10-K”), or incorporated certain statements by reference into this Form 10-K, that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as “intend,” “plan,” “estimate,” “believe,” “anticipate,” “expect,” “predict,” “project,” “assume,” “forecast,” “outlook,” “future,” “pending,” “goal,” “objective,” “continue,” “seek to,” “may,” “can,” “should,” “will” and “could” or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things, our future financial performance, including our operation and maintenance (“O&M”) efficiency ratio, cash flows, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our projected strategy to finance current operations and growth initiatives, the impact of legal proceedings and potential fines and penalties, business process and technology improvement initiatives, trends in our industry, regulatory or legal developments or rate adjustments, including rate case filings, filings for infrastructure surcharges and filings to address regulatory lag.

Forward-looking statements are predictions based on our current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results or levels of activity, performance or achievements, and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates and assumptions, and known and unknown risks, uncertainties and other factors. Our actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the factors discussed under Item 1A—Risk Factors, and the following important factors:

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

cost overruns relating to improvements in or the expansion of our operations;

· our ability to maintain safe work sites;

· our exposure to liabilities related to environmental law and similar matters resulting from, among other things, the provision of water services to customers in the natural gas exploration and production market;

· changes in general economic, business and financial market conditions;

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

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above and the risk factors included in Item 1A—Risk Factors and other statements contained in this Form 10-K, and you should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements we make speak only as of the date this Form 10-K was filed with the United States Securities and Exchange Commission (“SEC”). Except as required by the federal securities laws, we do not have any obligation, and we specifically disclaim any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for us to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on our businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

PART I

ITEM 1. BUSINESS

Our Company

Founded in 1886, American Water Works Company, Inc. (the “Company” or “American Water”) is a holding company incorporated in Delaware. American Water is the largest and most geographically diverse investor owned publicly-traded United States water and wastewater utility company, as measured by both operating revenues and population served. We employ approximately 6,700 professionals who provide drinking water, wastewater and other related services to an estimated 15 million people in 47 states, the District of Columbia and Ontario, Canada.

Operating Segments

We conduct our business primarily through our Regulated Businesses segment. We also operate several market-based businesses that provide a broad range of related and complementary water and wastewater services, which include four operating segments that individually do not meet the criteria of a reportable segment in accordance with generally accepted accounting principles in the United States (“GAAP”). These four non-reportable operating segments are collectively presented as our “Market-Based Businesses,” which is consistent with how management assesses the results of these businesses. Additional information can be found in Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 19—Segment Information in the Notes to Consolidated Financial Statements.

Regulated Businesses

Our primary business involves the ownership of subsidiaries that provide water and wastewater utility services to residential, commercial, industrial and other customers, including sale for resale and public authority customers. Our subsidiaries that provide these services operate in approximately 1,600 communities in 16 states in the United States and are generally subject to regulation by certain state commissions or other entities engaged in utility regulation, referred to as Public Utility Commissions or (“PUCs”). The federal and state governments also regulate environmental, health and safety, and water quality matters. We report the results of the services provided by our utilities in our Regulated Businesses segment.

Our Regulated Businesses segment’s operating revenues were \$2,743 million for 2015, \$2,674 million for 2014 and \$2,594 million for 2013, accounting for 86.8%, 88.8% and 90.1%, respectively, of total operating revenues for the same periods.

The following table summarizes our Regulated Businesses’ operating revenues, number of customers and estimated population served by state, each as of December 31, 2015:

				Estimated	
Operating				Population	
Revenues				Served	
(In	% of	Number of	% of	(In	% of
millions)	Total	Customers	Total	millions)	Total

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New Jersey	\$ 704	25.7 %	660,580	20.3 %	2.7	22.3 %
Pennsylvania	614	22.4 %	672,407	20.7 %	2.3	19.0 %
Illinois (a)	270	9.8 %	313,058	9.6 %	1.3	10.7 %
Missouri	269	9.8 %	473,245	14.5 %	1.5	12.4 %
Indiana	206	7.5 %	295,994	9.1 %	1.3	10.7 %
California	198	7.2 %	174,942	5.4 %	0.6	5.0 %
West Virginia (b)	129	4.7 %	169,037	5.2 %	0.6	5.0 %
Subtotal (Top Seven States)	2,390	87.1 %	2,759,263	84.8 %	10.3	85.1 %
Other (c)	353	12.9 %	493,428	15.2 %	1.8	14.9 %
Total Regulated Businesses	\$ 2,743	100.0 %	3,252,691	100.0 %	12.1	100.0 %

(a) Includes Illinois-American Water Company and American Lake Water Company.

(b) Includes West Virginia-American Water Company and its subsidiary Bluefield Valley Water Works Company.

(c) Includes data from our utilities in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia.

Water Supply and Wastewater Services

Our Regulated Businesses generally own the physical assets used to store, pump, treat and deliver water to our customers and collect, treat, transport and recycle wastewater. Typically, we do not own the water itself, which is held in public trust and is allocated to us through contracts and allocation rights granted by federal and state agencies or through the ownership of water rights pursuant to local law. We are dependent on a defined source of water supply and obtain our water supply from surface water sources such as reservoirs, lakes, rivers and streams; from ground water sources, such as wells; and water purchased from third party water suppliers.

The following chart depicts the sources of water supply as of December 31, 2015:

The percentages of finished water supply by source type for our top seven states based on our Regulated Businesses operating revenues for 2015 were as follows:

	Surface Water	%	Ground Water	%	Purchased Water	%
New Jersey	72	%	23	%	5	%
Pennsylvania	92	%	7	%	1	%
Illinois	52	%	37	%	11	%
Missouri	80	%	19	%	1	%
Indiana	43	%	56	%	1	%
California	—		65	%	35	%
West Virginia	100	%	—		—	

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

In our long-term planning, we evaluate quality, quantity, growth needs and alternate sources of water supply as well as transmission and distribution capacity. Water supply is seasonal in nature and weather conditions can have a pronounced effect on supply. In order to ensure that we have adequate water supply, we use long-term planning processes and maintain contingency plans to minimize the potential impact on service through a wide range of weather fluctuations. In connection with supply planning for most surface or groundwater sources, we employ models to determine safe yields under different rainfall and drought conditions. Surface and ground water levels are routinely monitored so that supply capacity deficits may, to the extent possible, be predicted and mitigated through demand management and additional supply development. An example of our use of long-term planning to ensure that we have adequate water supply is our involvement in the Monterey Peninsula Water Supply Project (the “Water Supply Project”) in California. The Water Supply Project involves the construction of a desalination plant, owned by California-American Water Company, our wholly owned subsidiary (“Cal Am”), which includes the construction of wells that would supply water to the desalination plant. The Water Supply Project is intended, among other things, to fulfill obligations of Cal Am to eliminate unauthorized diversions from the Carmel River as required under orders of the California State Water Resources Control Board.

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

Economic Regulation and Rate Making Process

The operations of our Regulated Businesses are generally subject to regulation and oversight by the PUCs in each of the states served by our utilities, with the primary responsibility of the PUCs to promote the overall public interest by balancing the interest of customers and utility investors. Specific authority might differ from state to state, but in most states PUCs approve rates charged to customers, accounting treatments, long-term financing programs and cost of capital, capital expenditures, O&M expenses, taxes, transactions and affiliate relationships, reorganizations and mergers and acquisitions. Regulatory policies vary from state to state and could potentially change over time. These policies will affect the timing, as well as the extent, of recovery of expenses and the realized return on invested capital.

The process to obtain approval for a change in rates generally occurs by way of a rate case filed by the utility with the PUC on a periodic basis. The timing of rate case filings are typically determined by either periodic requirements in the regulatory jurisdiction or by the utility's need to increase its revenue requirement to recover capital investment costs, changes in operating revenues, operating costs or other market conditions.

Our rate case management program is guided by the principles of obtaining timely recovery of capital investment costs, recognition of declining sales resulting from reduced consumption and appropriate recovery of utility operating and maintenance costs, including costs incurred for compliance with environmental regulations. The program attempts to minimize the delay, or "regulatory lag" between the time our Regulated Businesses make a capital investment or incur an operating expense increase and the time when those costs are reflected in rates. The management team at each of our utilities understands the time required for the regulatory process and files rate cases with the goal of obtaining rates that reflect as closely as possible the cost of providing service at the time the rates become effective.

Our Regulated Businesses support regulatory practices at the PUCs and state legislatures that mitigate the adverse impact of regulatory lag. Examples of approved regulatory practices include:

Regulatory Practices	Description	States Allowed
Infrastructure replacement surcharges	Allows rates to change periodically, outside a general rate proceeding, to reflect recovery of investments made to replace infrastructure necessary to sustain safe, reliable and affordable services for our customer.	IL, IN, MO, NJ, NY, PA, TN
Future test year	A test period used for setting rates, which extends beyond the date a rate request is filed. This allows current or projected revenues, expenses and investments to be collected on a more timely basis.	CA, HI, IL, IN, KY, NY, PA, TN, VA
Hybrid test year	Allows an update to historical data for "known and measurable" changes that occur subsequent to the historical test year.	MO, NJ
Utility plant recovery mechanisms	Allows recovery of the full return on utility plant costs during the construction period, instead of capitalizing an allowance for funds used during construction. In addition, some states, such as Indiana, allow the utility to seek pre-approval of certain capital projects and associated costs. In this pre-approval process, the PUC may assess the prudence of such projects.	CA, IL, KY, NY PA, TN, VA
Expense mechanisms	Allows changes in certain operating expenses, which may fluctuate based on conditions beyond the utility's control, to be recovered outside of a general rate	CA, IL, MD, MO, NJ, NY,

	proceeding or deferred until the next general rate proceeding.	PA, TN, VA, WV
Revenue stability mechanisms	Separates a water utility's cost recovery from the amount of water it sells. Such a mechanism adjusts rates periodically to ensure that a utility's revenue will be sufficient to cover its fixed costs regardless of sales volume, while providing an incentive for customers to use water more efficiently.	CA, NY
Consolidated tariffs	Use of a unified rate structure for multiple water systems owned and operated by a single utility, which may or may not be physically interconnected. The consolidated tariff pricing structure may be used fully or partially in a state and is generally used to moderate the impact of periodic fluctuations in local costs while lowering administrative costs for customers. Pennsylvania also permits a blending of water and wastewater rate structures.	IA, IL, IN, KY, MD, MO, NJ, PA, WV

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We pursue or seek enhancement to these regulatory practices as part of our rate case management program to facilitate efficient recovery of our costs and investments, in order to provide safe, reliable and affordable services to our customers. The ability to seek regulatory treatment as described above does not guarantee that the state PUCs will accept our proposal in the context of a particular rate case, and these practices may reduce, but not eliminate, regulatory lag associated with traditional rate making processes. It is also our strategy to expand their use in areas where they may not currently apply.

We also support state legislation that enables the consolidation of the largely fragmented water and wastewater industries. Legislation in certain states has generally enabled sales between interested parties, has allowed a reasonable market valuation of purchased property, and has enabled consolidation of water and wastewater rates.

Customers

Our Regulated Businesses have a large and geographically diverse customer base. A customer is a person, corporation, municipality or any other entity that purchases our water or wastewater system as of the last business day of a reporting period. Also, a single customer may purchase our services for use by multiple individuals or businesses in the case of many homes, apartment complexes, businesses and governmental entities.

Residential customers make up the majority of our customer base in all of the states in which we operate. In 2015, residential customers accounted for 91.1% of our customer base, 59.2% of the billed water sales and 56.0% of the operating revenues of our Regulated Businesses. We also serve commercial customers, such as offices, retail stores and restaurants; industrial customers, such as large-scale manufacturing and production operations; and public authorities, such as government buildings and other public sector facilities, including schools. We also supply water through our distribution systems to public fire hydrants for firefighting purposes, to private fire customers for use in fire suppression systems in office buildings and other facilities, as well as to other water utilities in the form of bulk water supplies for distribution to their own customers.

The vast majority of our regulated water customers are metered, which allows us to measure and bill for our customers' water usage, typically on a monthly basis. We employ a variety of methods of customer meter reading to monitor consumption. These methods range from meters with mechanical registers where consumption is manually recorded by meter readers, to meters with electronic registers capable of transmitting consumption data to proximity devices (touch read) or via radio frequency to mobile or fixed network data collectors. The majority of new meters are able to support future advances in electronic meter reading. Our wastewater customers are billed either a flat rate or based on their water consumption.

The following table summarizes the number of water and wastewater customers we served by class as of December 31:

	2015		2014		2013	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Residential	2,829,170	132,870	2,813,715	117,602	2,813,601	117,584
Commercial	218,798	7,308	218,314	6,221	219,510	6,287
Industrial	3,765	17	3,793	17	3,822	16
Public & other	60,421	342	59,249	281	58,420	259
Total	3,112,154	140,537	3,095,071	124,121	3,095,353	124,146

Customer growth in our Regulated Businesses is primarily driven by the following factors:

- adding new customers to our regulated customer base by acquiring water and/or wastewater utility systems;
- organic population growth or decline in our authorized service areas; and

· the sale of water to other community water systems.

Generally, we add customers through acquisitions of small and medium water and/or wastewater systems in close geographic proximity to areas where we operate our Regulated Businesses, which we refer to as “tuck-ins.” The proximity of tuck-in opportunities to our regulated footprint allows us to integrate and manage the acquired systems and operations primarily using our existing management and to achieve operational efficiencies. Pursuing tuck-ins has been and continues to be a fundamental part of our growth strategy. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and, if appropriate, in certain United States markets where we do not currently operate our Regulated Businesses. We will also selectively seek acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing and new markets. Before entering new regulated markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate rate of return on our investment while maintaining our high standards for providing safe, reliable and affordable services to our customers.

Seasonality

Customer demand for our water service is affected by weather and is generally greater during the summer months primarily due to increased usage for irrigation systems and other outdoor water use. As such, we typically expect our operating revenues to be the highest in the third quarter of each year compared to any of the other quarters. However, varying summer weather conditions can impact our third quarter financial results. Summer weather that is cooler and/or wetter than average generally serves to suppress customer water demand and can reduce water operating revenues and operating income. Summer weather that is hotter and drier than average generally increases operating revenues and operating income.

Competition

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

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

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

The acquisition consideration related to such a transaction initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular franchise or charter.

We actively monitor condemnation activities that may affect us as developments occur. We do not believe that condemnation poses a material threat to our ability to operate our Regulated Businesses, either individually or taken as a whole.

Market-Based Businesses

Through our Market-Based Businesses, we provide services to military bases, municipalities, exploration and production companies, commercial, industrial and residential customers that are not subject to economic regulation by state PUCs and do not require substantial infrastructure investment. For 2015, operating revenues for our Market-Based Businesses was \$434 million, or 13.7% of total operating revenues.

Our Market-Based Businesses is comprised of four operating segments:

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Military Services Group, which enters into long-term contracts, generally 50 years, with the U.S. Department of Defense for the O&M of the water and wastewater systems on certain military bases;

- Homeowner Services Group, which primarily provides warranty-type services to homeowners and smaller commercial customers to protect against the cost of repairing broken or leaking water pipes or clogged or blocked sewer pipes, located inside and outside their premise, as well as interior electric line repairs;
- Contract Operations Group, which enters into contracts primarily to operate and maintain water and wastewater facilities and other related services mainly for municipalities and the food and beverage industry; and
- Keystone, which provides customized water sourcing, transfer services, pipeline construction, water and equipment hauling and water storage solutions, for natural gas exploration and production companies.

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In November 2014, we disposed of our Class B Biosolids operating segment by selling our subsidiary, Terratec Environmental Ltd (“Terratec”), which provided biosolids management, transport and disposal services to municipal and industrial customers in Ontario, Canada. The results of Terratec are presented as discontinued operations and, as such, have been excluded from continuing operations and operating segment results for all periods presented. See Note 3—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional details on our discontinued operations.

Military Services Group

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

Homeowner Services Group

Our Homeowner Services Group, through our Service Line Protection Program, provides services to domestic homeowners and smaller commercial customers to protect against the cost of interior and external water and sewer line repairs and interior electric line repairs. Our LineSaver™ program involves partnering with municipalities to offer our protection programs to homeowners serviced by the municipalities. As of December 31, 2015, our Homeowner Services Group had approximately 1.6 million customer contracts in 43 states and the District of Columbia.

Contract Operations Group

Our Contract Operations Group enters into public/private partnerships, including: (i) O&M; (ii) Design; Build and Operate; and (iii) Design, Build, Finance, Operate and Maintain contracts for the provision of services to water and wastewater facilities for municipalities, the food and beverage industry and other customers. We are party to 58 contracts, varying in size and scope across the United States and Canada, ranging in terms from one to 30 years. Historically, we have made minimal long-term capital investment under these contracts with municipalities and other customers; instead we perform our services for a fee. Occasionally, we provide our customers with financing for capital projects as part of a long-term operations and maintenance partnership.

Keystone

Our Keystone business commenced in July 2015 through the acquisition of a ninety-five percent interest in Water Solutions Holdings, LLC, including its wholly owned subsidiary, Keystone Clearwater Solutions, LLC (collectively referred to as “Keystone”). Keystone is a water management solution company currently focused on exploration and production companies in the Appalachian Basin. Keystone primarily provides customized water sourcing, transfer, storage, transport and pipeline construction services for natural gas exploration and production companies. As of December 31, 2015, Keystone served 46 customers.

Competition

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

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

Keystone currently faces competition from water service providers that typically provide particular segments of the water management cycle, such as Rockwater Energy Solutions, Select Energy Services and Fluid Delivery Solutions, LLC.

Industry and Regulatory Matters

Overview

The aging water and wastewater infrastructure in the United States is in need of modernization and replacement. Increased regulations to improve water quality and the management of water and wastewater residuals' discharges, which began with passage of the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, have been among the primary drivers of the need for modernization. In 2007, the U.S. Environmental Protection Agency (the "EPA") estimated that approximately \$390.0 billion of capital spending would be necessary over the then next 20 years to replace aging infrastructure and ensure quality wastewater systems across the United States. In 2011, the EPA also estimated that the nation's drinking water utilities need \$384.2 billion in infrastructure investments for thousands of miles of pipe as well as thousands of treatment plants storage tanks, and other key assets between 2011 and 2030 to ensure the public health, security and economic well-being of our cities, towns and communities. Additionally, in 2013 the American Society of Civil Engineers ("ASCE") published its Report Card for America's Infrastructure, in which it gave the water and wastewater infrastructure a grade of "D" because much of the infrastructure is nearing the end of its useful life. The ASCE report concluded that there will be an investment gap between 2013 and 2020 of \$84 billion for drinking water and wastewater infrastructure.

The following chart depicts estimated aggregate capital expenditure needs from 2011 through 2030 for United States drinking water systems:

Note: Numbers may not total due to rounding

Source: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment
Environmental, Health and Safety, and Water Quality Regulation

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

Environmental, health and safety, and water quality regulations are complex and change frequently. The overall trend has been that they have become increasingly stringent over time. As newer or stricter standards are introduced, our capital and operating costs could increase. We incur substantial costs associated with compliance with environmental, health and safety, and water quality regulation to which our operations are subject. In the past, our Regulated Businesses have generally been able to recover costs associated with compliance related to environmental, health and safety standards; however, this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery. We estimate that we will make capital expenditures of \$42 million during 2016 and \$89 million during 2017 for environmental control facilities, which we define for this purpose as any project (or portion thereof) that involves the preservation of air, water or land.

We maintain an environmental program including responsible business practices, compliance with environmental laws and regulations, effective use of natural resources, and stewardship of biodiversity. We believe that our operations are materially in compliance with, and in many cases surpass, minimum standards required by applicable environmental laws and regulations. Water samples from across our water systems are analyzed on a regular basis for compliance with regulatory requirements. Across our Company, we conduct over one million water quality tests each year at our laboratory facilities and plant operations, including continuous on-line instrumentations such as monitoring turbidity levels, disinfectant residuals and adjustments to chemical treatment based on changes in incoming water. For 2015, we achieved a score of greater than 99% for drinking water compliance and according to the EPA's statistics, American Water's performance has been far better than the industry average over the last several years. In fact, in 2015, American Water was 13 times better than the industry average for compliance with drinking water requirements.

We participate in the Partnership for Safe Water, EPA's voluntary program to meet more stringent goals for reducing microbial contaminants. With 68 of our 81 surface water plants receiving the program's "Director" award, which recognizes utilities that have completed a comprehensive self-assessment report, created an action plan for continuous improvement and produces high quality drinking water, we account for approximately one-third of the plants receiving such awards nationwide. In addition, 64 American Water plants have received the "Five-Year Phase III" award, while 59 have been awarded the "Ten-Year Phase III" award. Additionally, 25 plants received the inaugural "Fifteen-Year Phase III" award, which recognizes plants that have met the Director award status for 15 years.

Safe Drinking Water Act

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

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

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

Clean Water Act

The Federal Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and groundwater. In addition to requirements applicable to our wastewater collection systems, our operations require discharge permits under the National Pollutant Discharge Elimination System (“NPDES”) permit program established under the Clean Water Act, which must be renewed every five years. Pursuant to the NPDES permit program, the EPA or implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. Discharges that exceed the limits specified under NPDES permits can lead to the imposition of penalties, and persistent non-compliance could lead to significant penalties and compliance costs. In addition, the difficulty of obtaining, complying with NPDES permits and renewing expiring permits may impose time and cost burdens on our operations. From time to time, discharge violations occur at our facilities, some of which result in fines. We do not expect any such violations or fines to have a material impact on our results of operations or financial condition.

Other Environmental, Health and Safety, and Water Quality Matters

Our operations also involve the use, storage and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals which generate wastes that require proper handling and disposal under applicable environmental requirements. We also could incur remedial costs in connection with any contamination relating to our operations or facilities or our off-site disposal of wastes. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (“CERCLA”), authorizes the EPA, and comparable state laws authorize state environmental authorities, to issue orders and bring enforcement actions to compel responsible parties to investigate and take remedial actions at any site that is determined to present an actual or potential threat to human health or the environment because of an actual or threatened release of one or more hazardous substances. Parties that generated or transported hazardous substances to such sites, as well as the owners and operators of such sites, may be deemed liable, without regard to fault, under CERCLA or comparable state laws. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the U.S. Occupational Safety and Health Act and are subject to inspections thereunder. For further information, see Item 1—Business—Research and Development.

Certain of our subsidiaries are involved in pending legal proceedings relating to environmental matters. Further description of these proceedings can be found in Item 3—Legal Proceedings.

Research and Development

We have a research and development program, which seeks to improve water quality and operational effectiveness in all areas of our business. Our research and development personnel are located in New Jersey. In addition, our quality control and testing laboratory in Belleville, Illinois supports our research and development activities through testing and analysis.

We continue to collaborate with the EPA to achieve effective environmental, health and safety, and water quality regulation. This relationship includes sharing of our research and national water quality monitoring data in addition to our treatment and distribution system optimization research. Our engagement with the EPA provides us with early insight into emerging regulatory issues and initiatives, thereby allowing us to anticipate and to accommodate our future compliance requirements.

Approximately one-quarter of our research budget is funded by competitively awarded outside research grants. Such grants reduce the cost of research and allow collaboration with leading national and international researchers. In 2015,

we spent \$4 million, including \$1 million funded by research grants. Spending, net of research grant funding, amounted to \$3 million in 2014 and 2013.

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

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Support Services

Our American Water Works Service Company subsidiary provides support services and corporate governance for our operating subsidiaries. These services are provided predominantly to our Regulated Businesses under the terms of contracts with these subsidiaries that have been approved by state PUCs, where necessary. These services are also provided to our Market-Based Businesses organized under American Water Enterprises. They are only provided to Keystone upon request. These services, which are provided at cost, may include accounting and finance, administration, business development, communications, education and training, engineering, health and safety, human resources, information systems, internal audit, investor relations, legal, operations, procurement, rates support, security, risk management, treasury, water quality and research and development. We also operate two national customer service centers, which are located in Alton, Illinois and Pensacola, Florida, that provide customer relations, operations and field service support. The services are provided at cost and enable our Regulated Businesses and Market-Based Businesses to fulfill their responsibilities in a more cost-effective manner.

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

Employee Matters

As of December 31, 2015, approximately 46% of our workforce is represented by unions. As of that date we had 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. Also, we have 4 union contracts beyond expiration that affect approximately 700 employees, all of which are actively working under the old agreements. During 2016, 32 of our local union contracts will expire.

On October 13, 2014, we entered into a settlement agreement with the Utility Workers Union of America (“UWUA”) designed to resolve a dispute between our company and the labor unions representing employees in the Regulated Businesses (the “Unions”). Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, we agreed to make a \$10 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement.

The Unions approved the settlement agreement on October 30, 2014, and the National Labor Relations Board (the “NLRB”) approved the settlement agreement on October 31, 2014. We, the NLRB and the UWUA filed a joint stipulation to dismiss the petition for review. The Seventh Circuit voluntarily dismissed all the parties' appeals on December 16, 2014. In 2015, the NLRB dismissed the unfair labor practice charge pending on the national benefits dispute upon receipt of our \$10 million lump-sum payment.

The majority of the distributions were used to reimburse active employees for medical claims, which were incurred during the relevant period and were funded by the Group Insurance Plan for Active Employees of American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates, to which we previously made contributions.

Executive Officers

The following table summarizes the name, age, offices held and business experience for each of our executive officers, as of February 24, 2016:

Name	Age	Office and Experience
Susan N. Story	56	President and Chief Executive Officer. Ms. Story has served as President and Chief Executive Officer of the Company since May 2014. Ms. Story served as Senior Vice President and Chief Financial Officer of the Company from April 2013 until May 2014. Prior to joining American Water, she served as President and Chief Executive Officer of Southern Company Services, a subsidiary of Southern Company, from January 2011 until March 2013 and President and Chief Executive Officer of Gulf Power Company, also a subsidiary of Southern Company, from 2003 until December 2010. Since 2008, Ms. Story has served as a member of the board of directors of Raymond James Financial, Inc., a diversified financial services company.
Sharon Cameron	59	President of American Water Enterprises. Ms. Cameron has been President of American Water Enterprises since September 2010 and served as President of Homeowner Services since 2002. Prior to joining American Water, Ms. Cameron was Principal of Marketing Solutions, a marketing consulting firm she launched in 1998.
Mark Chesla	56	Vice President and Controller. Mr. Chesla has been our Vice President and Controller since November 2007. From 2001 to November 2007, Mr. Chesla was Vice President and Controller of Oglethorpe Power Corporation, in Atlanta, Georgia, where he served as that company's chief accounting officer. In this capacity, he was responsible for all aspects of the accounting, internal financial management, regulatory and SEC reporting functions. Mr. Chesla was Vice President, Administration/Controller of SouthStar Energy Services LLC, in Atlanta, Georgia, from 1998 to 2001. Earlier, he held management positions with several other companies, including Piedmont Natural Gas Co., Inc., Aegis Technologies, Inc., Deloitte & Touche LLP and Carolina Power & Light Company.
Deborah Degillio	44	Vice President and Treasurer. Ms. Degillio has served as the Company's Vice President and Treasurer since January 2015. Ms. Degillio served as Vice President of Finance of American Water Enterprises from November 2013 to February 2015, as a Vice President in the Company's Finance team for its Eastern Division from June 2009 until October 2013, and as Director of Financial Planning and Analysis for America Water's then Western states, from April 2007 until May 2009.
Brenda J. Holdnak	62	Senior Vice President of Human Resources. Ms. Holdnak has served as the Company's Senior Vice President Human Resources since January 1, 2016 and its Vice President Human Resources from January 19, 2015 to December 31, 2015. Prior to joining American Water, she served as President of Holdnak and Associates Consulting, a human resources consulting firm, from June 2014 to December 2014. Prior to that time, she served as Director of Talent Management of The Babcock & Wilcox Company, from March 2011 to June 2014. Previously, she served as Director of Change Management and Organizational Development of Medtronic, Inc. from May 2010 to March 2011 and an Executive Consultant/Principal of the Henly Consulting Group from July 2006 to January 2011.
Walter J. Lynch	53	Executive Vice President and Chief Operating Officer. Mr. Lynch has served as the Company's Executive Vice President and Chief Operating Officer since January 1, 2016, as Chief Operating Officer of Regulated Operations from February 26, 2010 to December 31, 2015, and President of Regulated Operations from July 2008 to December 31, 2015. Mr. Lynch joined us in 2001. In addition, Mr. Lynch is on the Board of Directors of the National Association of Water Companies and serves on its Executive Committee.
Michael Sgro	57	

		Executive Vice President, General Counsel and Secretary. Mr. Sgro has served as the Company's Executive Vice President, General Counsel and Secretary since January 1, 2016 and its Senior Vice President, General Counsel and Secretary from February 2015 to January 2016. Prior to that, he served as the Company's Interim General Counsel and Secretary from January 2015 until February 2015 and as Vice President, General Counsel and Secretary of American Water's Northeast Division beginning in 2002.
Mark F. Strauss	64	Senior Vice President of Corporate Strategy and Business Development. Mr. Strauss has been our Senior Vice President of Corporate Strategy and Business Development since September 2010. From December 2006 to September 2010, Mr. Strauss served as President of American Water Enterprises. In January 2016, Mr. Strauss was appointed to the Board of Directors of Fulton Financial Corporation, a Lancaster, Pennsylvania-based financial holding company.
Linda G. Sullivan	52	Executive Vice President and Chief Financial Officer. Ms. Sullivan has served as the Company's Executive Vice President and Chief Financial Officer since January 1, 2016 and the Company's Senior Vice President and Chief Financial Officer from May 2014 to December 31, 2015. Prior to joining American Water, Ms. Sullivan served as the Senior Vice President and Chief Financial Officer of Southern California Edison Company, a subsidiary of Edison International, from July 2009 until May 2014, and Vice President and Controller of both Edison International and Southern California Edison Company, from July 2004 until July 2009.
Lloyd "Aldie" Warnock	56	Senior Vice President of External Affairs, Communications and Public Policy. Mr. Warnock has served as the Company's Senior Vice President of External Affairs, Communications and Public Policy since April 2014. Prior to joining the Company, he served as Senior Vice President of External Affairs at Midwest Independent System Operator, Inc., a non-profit, self-governing organization, from March 2011 to April 2014. Prior to that, he served as Vice President of External Affairs for Allegheny Energy, Inc. from December 2005 to February 2011 and Senior Vice President of Governmental and Regulatory Affairs at Mirant Corporation from July 2004 to November 2005.

Each executive officer is elected annually by the Board of Directors and serves until his or her respective successor has been elected and qualified or his or her earlier death, resignation or removal.

Available Information

We are subject to the reporting requirements of the Exchange Act. We file or furnish annual, quarterly and current reports, proxy statements and other information with the SEC. You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, <http://www.amwater.com>, shortly after we file or furnish the information to the SEC. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report, and any website references included herein are not intended to be made through active hyperlinks. We recognize this website as a key channel of distribution to reach public investors and as a means of disclosing material non-public information to comply with our disclosure obligations under SEC Regulation FD.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at its Public Reference Room, located at 100 F Street N.E., Washington, D.C. 20549. The phone number for information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. Because we electronically file our reports, you may also obtain this information from the SEC internet website at <http://www.sec.gov>. You can obtain additional contact information for the SEC on its website.

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Industry and Business Operations

Our utility operations are subject to extensive economic regulation by state PUCs and other regulatory agencies, which significantly affects our business, financial condition, results of operations and cash flows. Our utility operations also may be subject to fines, penalties and other sanctions for the inability to meet these regulatory requirements.

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

Our ability to successfully implement our business plan and strategy depends on the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. Our rate increase requests may or may not be approved, or may be partially approved, and any approval may not occur in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is

sufficient to:

- cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations;
- enable us to recover our investment; and
- provide us with an opportunity to earn an appropriate rate of return on our investment.

Approval of the PUCs is also required in connection with other aspects of our utilities' operations. State PUCs are empowered to impose financial penalties, fines and other sanctions for non-compliance with applicable rules and regulations. Our utilities are also required to have numerous permits, approvals and certificates from the PUCs that regulate their businesses. Although we believe that each utility subsidiary has obtained or sought renewal of the material permits, approvals and certificates necessary for its existing operations, we are unable to predict the impact that future regulatory activities may have on our business.

In any of these cases, our business, financial condition, results of operations, cash flows and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital to the extent permitted by state PUCs. This could occur if certain conditions exist, including but not limited to, if water usage is less than the level anticipated in establishing rates, or if our investments or expenses prove to be higher than the level estimated in establishing rates.

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

Our water and wastewater operations, as well as the operations of our Market-Based Businesses, are subject to extensive federal, state and local laws and regulations and, in the case of our Canadian operations, Canadian laws and regulations that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, discharge and dispose of wastewater. These requirements include CERCLA, the Clean Water Act and the Safe Drinking Water Act, and similar state and Canadian laws and regulations. For example, CERCLA authorizes the EPA to issue orders and bring enforcement actions to compel responsible parties to investigate and take remedial actions with respect to actual or threatened releases of hazardous substances, and can impose joint and several liability, without regard to fault, on responsible parties for the costs thereof. We are also required to obtain various environmental permits from regulatory agencies for our operations.

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

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

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

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

Our ability to meet the existing and future demand of our customers depends on the availability of an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights (determined

by legislation or court decisions) and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing-flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements, which can change from time to time, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water.

For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with an October 20, 2009 cease and desist order (the “2009 Order”) of the California State Water Resources Control Board that requires Cal Am to significantly decrease its diversions from the Carmel River in accordance with a reduction schedule presently running through December 31, 2016 (the “2016 Deadline”). We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. In November 2015, Cal Am filed an application with the State Water Resources Control Board to modify the 2009 Order to extend the deadline for compliance to December 31, 2020. We cannot predict whether Cal Am will be able to extend the 2016 Deadline or secure alternative sources of water, or if Cal Am will be exposed to liabilities if it is unable to meet the 2016 Deadline under the 2009 Order. If Cal Am or any of our other subsidiaries are unable to secure an alternative source of water, or if other adverse consequences result from the events described above, our business, financial condition, results of operations and cash flows could be adversely affected. See Item 3—Legal Proceedings in this report, which includes additional information regarding this matter.

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

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

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

Changes in laws and regulations over which we do not control and changes in certain agreements can significantly affect our business, financial condition, results of operations, cash flows and liquidity.

New legislation, regulations, government policies or court decisions can materially affect our operations. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as

regulators and the policies of the regulatory agencies that they serve. New laws or regulations, new interpretations of existing laws or regulations, changes in agency policy, including those made in response to shifts in public opinion, or conditions imposed during the regulatory hearing process could have the following consequences, among others:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- restricting our ability to terminate our services to customers who owe us money for services previously provided or limiting our bill collection efforts;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to buy or sell assets or issue securities;

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- negatively impacting the deductibility of expenses under federal or state tax laws, the amount of tax credits or tax abatement benefits that may be available, the amount of taxes owed, or the ability to utilize our net operating loss carryforwards;
- changing regulations that affect the benefits we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
 - making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- placing limitations, prohibitions or other requirements with respect to the sharing of information and participation in transactions by or between a regulated subsidiary and us or our other affiliates, including our service company and any of our other subsidiaries;
- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and
- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

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

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

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

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition, results of operations and cash flows. Seasonal drought conditions that would impact our water services are possible across all of our service areas. If a regional drought were to occur, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. For example, as a result of a four-year period of reduced rainfall and overall dry conditions throughout the State of California, Cal Am has been closely monitoring its owned and purchased water supplies. In April 2015, the Governor of California mandated water usage restrictions to reduce overall water usage by 25% in the state compared to 2013 usage levels. Although such restrictions are scheduled to expire in February 2016, the Governor of California issued an executive order in November 2015 extending the restrictions through October 31, 2016 if drought conditions persist through January 2016. While expenses incurred in implementing water conservation and rationing plans in Cal Am's districts are generally recoverable provided the California Public Utilities Commission (the "CPUC") determines they were reasonable, Cal Am cannot assure that such expenses will, in fact, be fully recovered. Moreover, reductions in water consumption, including those resulting from installation of equipment or changed consumer behavior, may persist even after

drought restrictions are repealed and the drought has ended, which could adversely affect our business, financial condition, results of operations and cash flows.

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

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

The water and wastewater utility business is capital intensive. We invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2015, we invested \$1.2 billion in net Company-funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems could increase in the future. We expect to fund capital improvement projects using cash generated from operations, borrowings under our revolving credit facility and commercial paper programs and issuances of long-term debt. We may not be able to access the debt and equity capital markets, when necessary or desirable to fund capital improvements on favorable terms or at all.

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

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

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

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

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

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

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

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

In this regard, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances into the Elk River near the WVAWC treatment plant intake in Charleston, West Virginia. WVAWC has and may continue to incur significant costs in responding to this incident and may not be able to recover such costs through rates or from insurers. Even if recovery is possible, it may not occur in a timely manner. Government investigations relating to the Freedom Industries spill have been initiated, state laws have been enacted, state and federal legislatures are considering changes to existing laws or rules associated with new laws, and there are 68 currently pending lawsuits against WVAWC and, in a few cases, against us or our affiliates. While American Water and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and American Water and WVAWC believe they and other affiliates have valid, meritorious defenses to the lawsuits, WVAWC will incur defense costs that may not be recoverable. Moreover, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. WVAWC and American Water are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations. See Item 3—Legal Proceedings for additional information regarding this matter.

Since we engage in the business of providing drinking water to our customers, contamination of the water supply can result in substantial injury or damage to our customers, employees or others and we could be exposed to substantial claims and litigation. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and may be brought by our customers or third parties. Litigation and regulatory proceedings are subject to inherent uncertainties and unfavorable rulings can and do occur. Pending or future claims against us could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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

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

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

We are subject to adverse publicity and reputational risks, which make us vulnerable to negative customer perception and could lead to increased regulatory oversight or other sanctions.

Water and wastewater utilities, including our regulated subsidiaries, have a large consumer customer base and as a result are exposed to public criticism regarding, among other things, the reliability of their water and wastewater services, the quality of water provided, and the timeliness and accuracy of bills that are provided for such services. Adverse publicity and negative consumer sentiment may render legislatures and other governing bodies, state PUCs and other regulatory authorities, and government officials less likely to view companies such as American Water and its regulated subsidiaries in a favorable light, and may cause American Water and its regulated subsidiaries to be susceptible to less favorable legislative and regulatory outcomes, as well as increased regulatory oversight and more stringent regulatory requirements. Unfavorable regulatory outcomes may include the enactment of more stringent laws

and regulations governing our operations, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material negative impact on American Water and each of our regulated subsidiaries' business, financial condition, results of operations and cash flows.

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

The properties of our Regulation Businesses segment include 81 dams, a failure of any of which could result in personal injury and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

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

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

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

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

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

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

- incurrence of debt, contingent liabilities, environmental liabilities and assumption of liabilities of an acquired business, including liabilities that were unknown at the time of acquisition;
- failure to recover of acquisition premiums;
- unanticipated capital expenditures;
- issuances of our equity securities;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets at values that ultimately may be subject to impairment charges;
- fluctuations in quarterly results;
- unanticipated acquisition-related expenses;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements; and
- difficulties assimilating personnel, services and systems.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business, pay dividends and to comply with regulatory requirements. The businesses we acquire in the future may not achieve

anticipated sales and profitability, and any difficulties we encounter in the integration process could interfere with our operations, reduce our operating margins and adversely affect our internal control over financial reporting.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. If consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to expand through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities adjacent to or near our existing service areas, thereby impairing our ability to geographically expand the affected service areas. Competing governmental entities, utilities, environmental or social

activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service areas. Our growth could be hindered if we are not able to compete effectively for new companies and/or service areas with other companies or strategic and financial buyers that have lower costs of operations. Any of these risks may adversely affect our business, financial condition, results of operations and cash flows.

The assets of our Regulated Businesses are subject to condemnation through eminent domain or other similar authorized process.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized efforts may arise from time to time in one or more of the service areas in which our Regulated Businesses operate to convert our assets to public ownership and operation through exercise of the governmental power of eminent domain, or another similar authorized process. Should a municipality or other government subdivision or a citizen group seek to acquire our assets through eminent domain or such other process, either directly or indirectly as a result of a citizen petition, we may resist the acquisition.

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

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

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

Our technology systems, particularly our information technology ("IT") systems, are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. For example, we depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. While we completed in the fourth quarter of 2013 the business transformation implementation for our Enterprise Resource Planning, Enterprise Asset Management ("EAM") and Customer Information ("CIS") systems, and we are in the process of implementing a similar system for our American Water Enterprises business, a number of our mission and business critical IT systems are older, such as our SCADA (supervisory control and data acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cybersecurity incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and

·hurricanes, fires, floods, earthquakes and other natural disasters.

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

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

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

As operators of critical infrastructure, we may face a heightened risk of physical and/or cyber attacks. Our water and wastewater systems may be vulnerable to disability or failures as a result of physical or cyber acts of war or terrorism, vandalism or other causes. Our corporate and information technology systems may be vulnerable to unauthorized access due to hacking, viruses, acts of war or terrorism, and other causes. Unauthorized access to confidential information located or stored on these systems could negatively and materially impact our customers, employees, suppliers and other third parties.

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

Our inability to efficiently optimize and stabilize new IT systems could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

Over the past several years, we have implemented, and are in the process of implementing with respect to our American Water Enterprises business, improvements to our business processes and upgrading our legacy core information technology systems. These enterprise-wide initiatives support our broader strategic initiatives and are intended to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service capabilities. Any technical or other difficulties in optimizing and stabilizing new IT systems and other technology may increase the costs of the project beyond those anticipated and have an adverse effect on our operations and reporting processes, including our internal control over financial reporting. Although efforts are being made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

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

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

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

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

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, chemicals and other regulated materials. On many sites we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase

employee turnover and raise our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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

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

As of December 31, 2015, approximately 46% of our workforce was represented by unions, and we had 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. These collective bargaining agreements are subject to periodic renewal and renegotiation. We may not be able to renegotiate labor contracts on terms that are fair to us. Any negotiations or dispute resolution processes undertaken in connection with our labor contracts could be delayed or affected by labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages, and our failure to obtain favorable labor contract terms during renegotiations may adversely affect our financial condition, results of operations, cash flows and liquidity.

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

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

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

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

Financial and Market-Related Risks

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

As of December 31, 2015, our indebtedness (including preferred stock with mandatory redemption requirements) was \$6.6 billion, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

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

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our revolving credit facility or issue new short-term and long-term debt securities. Moreover, additional borrowings may be required to refinance outstanding indebtedness. Debt maturities and sinking fund payments in 2016, 2017 and 2018 will be \$54 million, \$573 million and \$457 million, respectively. We can provide no assurance that we will be able to access the debt capital markets on favorable terms, if at all. Moreover, if new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

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

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

In addition to cash from operations, we rely primarily on our revolving credit facility, commercial paper programs, and the capital markets to satisfy our liquidity needs. In this regard, our principal external sources of short-term liquidity are our commercial paper program and our \$1.25 billion revolving credit facility. Our revolving credit facility expires in accordance with its terms in June 2020. We regularly use our commercial paper program under this revolving credit facility as a principal source of short-term borrowing due to the generally more attractive rates we generally can obtain in the commercial paper market. As of December 31, 2015, American Water Capital Corp. (“AWCC”), our wholly owned financing subsidiary, had no outstanding borrowings under the revolving credit facility, and had \$626 million of commercial paper outstanding and \$82 million in outstanding letters of credit.

Disruptions in the capital markets could limit our ability to access capital. While our credit facility lending banks have met all of their obligations, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry’s financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. Our lenders may not meet their existing commitments and we may not be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all. Furthermore, our inability to maintain, renew or replace commitments under this facility could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity. Longer term disruptions in the capital and credit markets as a result of uncertainty, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital and credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures.

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

American Water may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay upstream dividends or repay funds to American Water.

American Water is a holding company and, as such, American Water has no operations of its own. Substantially all of our consolidated assets are held by subsidiaries. American Water's ability to meet its financial obligations and to pay dividends on its common stock is primarily dependent on the net income and cash flows of its subsidiaries and their ability to pay upstream dividends to American Water or repay indebtedness to American Water. Prior to funding American Water, American Water’s regulated subsidiaries must comply with regulatory restrictions and financial obligations that must be satisfied, including among others, debt service and preferred and preference stock dividends, as well as applicable corporate, tax and other laws and regulations and agreements and covenants made by American Water and its subsidiaries. American Water's subsidiaries are separate legal entities and have no obligation to provide American Water with funds. An inability of any of these subsidiaries to pay such dividends or repay intercompany obligations could have a material adverse impact on American Water's liquidity and its ability to pay dividends on its common stock and meet its other obligations.

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

As of December 31, 2015, we had U.S. federal and state net operating loss (“NOL”) carryforwards of approximately \$1.1 billion and \$534 million, respectively. Our federal NOL carryforwards will begin to expire in 2028, and our state NOL carryforwards began to expire in 2016 and will continue to expire until 2034. Our ability to utilize our NOL carryforwards is primarily dependent upon our ability to generate sufficient taxable income. Our management believes the federal NOL carryforwards are more likely than not to be recovered and therefore currently require no valuation allowance. At December 31, 2015, \$60 million of the state NOL carryforwards have been offset by a valuation allowance because we do not believe these NOLs will more likely than not be realized in the future, and we have, in the past, been unable to utilize certain of our NOLs. The establishment or increase of a valuation allowance in the future would reduce our deferred income tax assets and our net income.

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

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

Our total assets include \$1.3 billion of goodwill at December 31, 2015. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003, the acquisition of E'Town Corporation by a predecessor to our previous owner in 2001, and the acquisition of Keystone, which was completed in July 2015. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and other intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance or the performance of an acquired business. These market conditions could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, market price performance of our common stock that compares unfavorably to our peer companies, decreases in control premiums, or, with respect to Keystone, fluctuations in the level of exploration and production activities in the Marcellus and Utica shale regions served by Keystone, a prolonged depression of natural gas prices or other factors that negatively impact our forecast operating results, cash flows or key assumptions in the future. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or interest rates, could also result in an impairment charge. Recognition of impairments of goodwill would result in a charge to income in the period in which the impairment occurred, which may negatively affect our financial condition, results of operations and total capitalization. The effects of any such impairment could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

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

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

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

Additional Risks Related to Our Market-Based Businesses

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

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

At December 31, 2015, we had remaining performance commitments as measured by remaining contract revenue totaling approximately \$3.6 billion and this amount is likely to increase if our Market-Based Businesses expand. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms.

American Water Enterprises' long-term contracts with the Department of Defense may be terminated for the convenience of the U.S. Government and are subject to periodic contract price redetermination.

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

American Water Enterprises operates a number of water and wastewater systems under O&M contracts and faces the risk that the owners of those systems may fail to provide capital to properly maintain those systems, which may negatively affect American Water Enterprises as the operators of the systems.

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

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

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

Keystone's operations may expose us to substantial costs and liabilities with respect to environmental laws and matters.

Keystone's operations, and the operation generally of natural gas and oil exploration and production facilities by Keystone's customers, are subject to stringent federal, state and local laws, rules, regulations and ordinances governing the release of materials into the environment or otherwise relating to environmental protection. These provisions may require the acquisition by Keystone of permits or licenses before providing its services to customers, prohibit the release of substances defined thereunder as hazardous in connection with these activities, and impose substantial liabilities for the violation thereof that may result from these operations. Failure to comply with these laws, rules, regulations and ordinances may result in substantial environmental remediation and other costs to Keystone, the assessment of administrative, civil and criminal penalties or the issuance of injunctions restricting or prohibiting certain activities. Under existing environmental laws and regulations, Keystone could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether the release

resulted from its operations, or whether its operations were in compliance with all applicable laws at the time they were performed. While the Company has attempted to structure and maintain its ownership and control of Keystone's operations in such a way as to insulate the Company, its regulated subsidiaries and its Market-Based Businesses from any liabilities associated with Keystone's operations, including liabilities for environmental matters, there can be no assurance that such efforts will be sufficient to prevent the Company from incurring liability for the operations of Keystone.

Changes in environmental laws and regulations occur frequently, and any changes to these or other laws governing the natural gas and oil exploration industry that result in more stringent or costly water or wastewater handling, storage, transport, disposal or cleanup requirements could require Keystone to make significant expenditures to maintain compliance with such requirements, may harm Keystone's business and results of operations by reducing the demand for Keystone's water and related services, and may otherwise have a material adverse effect on Keystone's competitive position, financial condition, results of operations and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

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

The properties of our Regulated Businesses segment primarily include 81 dams and 81 surface water treatment plants along with approximately 500 groundwater treatment plants, 1,100 groundwater wells, 100 wastewater treatment facilities, 1,200 treated water storage facilities, 1,400 pumping stations, and 49,000 miles of mains and collection pipes. We have ongoing infrastructure renewal programs in all states in which our Regulated Businesses segment operate. These programs consist of both rehabilitation of existing mains and other equipment and replacement of mains and other equipment that are damaged or have reached, or are near, the end of their useful service lives. The properties of our Market-Based Businesses consist mainly of office furniture and IT equipment and are primarily located in New Jersey. Approximately 51% of all properties that we own are located in New Jersey and Pennsylvania.

We maintain property insurance against loss or damage to our properties by fire or other perils, subject to certain exceptions. For insured losses, we are self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained.

We believe that our properties are generally maintained in good operating condition and in accordance with current standards of good water and wastewater industry practice.

ITEM 3. LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

In 1995, the California State Water Resources Control Board issued an administrative order (the "1995 Order") requiring Cal Am to implement an alternative water supply in lieu of diversions from the Carmel River. In response to claims that Cal Am had not diligently pursued establishing an alternative water supply as required by the 1995 Order, the State Water Resources Control Board adopted the 2009 Order, finding that Cal Am had not sufficiently implemented actions to terminate its unpermitted diversions from the Carmel River as required by the 1995 Order. The 2009 Order requires, among other things, that Cal Am significantly decrease its yearly diversions from the Carmel River according to a set reduction schedule through December 31, 2016, at which point all unpermitted diversions must end. Failure to effect the decrease in diversions mandated by the 2009 Order could result in substantial penalties.

In December 2010, the CPUC approved the Regional Desalination Project (the "RDP"), involving the construction of a desalination facility in the City of Marina, north of Monterey. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among the Marina Coast Water District ("MCWD"), the Monterey County Water Resources Agency ("MCWRA") and Cal Am. The RDP was intended to eliminate unauthorized diversions from the Carmel River as required under the 1995 Order and the 2009 Order, in addition to other obligations.

The RDP was subject to delay due to, among other things, funding delays and investigations and inquiries initiated by public authorities relating to an alleged conflict of interest concerning a former member of the MCWRA Board of Directors (the "Former Director"). In July 2011, MCWRA advised MCWD and Cal Am that the Agreements were void as a result of the conduct of the Former Director. On September 28, 2011, Cal Am terminated the Agreements as a result of MCWRA's anticipatory repudiation of the Agreements by stating they were void. Following unsuccessful mediation efforts, Cal Am publicly announced that it had withdrawn support of the RDP. In July 2012, the CPUC closed the proceedings relating to the RDP and stated that it would examine the recoverability of costs related to the RDP in other proceedings.

In December 2012, Cal Am, MCWRA and the County of Monterey entered into a settlement agreement under which Cal Am will forgive approximately \$1.9 million loaned by Cal Am under the Agreements, and Cal Am will make additional payments of up to approximately \$1.5 million to MCWRA. On April 15, 2015, the CPUC issued a final decision approving, in part, the settlement agreement by authorizing Cal Am's recovery of \$1.9 million of costs advanced to MCWRA. The CPUC denied without prejudice the recovery of approximately \$765 thousand due to insufficient information for the CPUC to determine the reasonableness of such amount. Cal Am may file another application for recovery at a future date. On April 17, 2015, MCWD filed an application with the CPUC for a rehearing of the settlement approval, which was denied on October 22, 2015. On November 20, 2015, MCWD filed with the California Supreme Court a petition for writ of review of the CPUC approval and the order denying MCWD's rehearing application.

In October 2012, Cal Am filed a Complaint for Declaratory Relief (the "2012 Complaint for Declaratory Relief") in the Monterey County Superior Court (subsequently transferred to the San Francisco County Superior Court) against MCWRA and MCWD, seeking a determination by the court as to whether the Agreements are void as a result of the Former Director's alleged conflict of interest, or remained valid. On June 1, 2015, the court entered its final judgment declaring that four of the five Agreements are void and one, the credit line agreement, is not void (the "Void Judgment"). On June 30, 2015, MCWD filed its notice of appeal of the Void Judgment. The court awarded Cal Am approximately \$1.4 million in costs and attorneys' fees in connection with the 2012 Complaint for Declaratory Relief. Appeals of these awards remain pending.

On July 1, 2015, Cal Am and MCWRA filed a Complaint, subsequently amended on July 17, 2015 (the "Cal Am Complaint") in San Francisco County Superior Court, against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, which have been alleged in the Cal Am Complaint to be in excess of \$10.0 million, as well as punitive and treble damages, statutory penalties and attorneys' fees. On July 30, 2015, MCWD filed a Complaint (the "MCWD 2015 Complaint") in San Francisco County Superior Court against Cal Am, MCWRA and certain unidentified individual defendants. MCWD is seeking to recover compensatory damages associated with the failure of the RDP in an amount to be proven at trial, which have been alleged in the MCWD 2015 Complaint to be at least \$18.0 million, as well as exemplary damages and attorneys' fees. On August 12, 2015, RMC filed a Complaint for Damages (the "RMC Complaint," and, together with the Cal Am Complaint and the MCWD 2015 Complaint, collectively, the "Damages Actions") in San Francisco County Superior Court against Cal Am and MCWRA seeking to recover damages associated with the failure of the RDP of at least \$697 thousand, plus an unspecified amount of punitive damages against Cal Am. On December 16, 2015, the court issued an order granting a motion by RMC to consolidate the Damages Actions and a motion by MCWD to stay the Damages Actions pending the resolution of the appeal of the Void Judgment.

In April 2012, Cal Am filed an application with the CPUC for approval of the Monterey Peninsula Water Supply Project (the "Water Supply Project"). The Water Supply Project involves construction of a desalination plant, owned by Cal Am, intended to reduce water diversions from the Carmel River. In addition, the Water Supply Project may include Cal Am's purchase of water from a groundwater replenishment project (the "GWR Project") between the Monterey Regional Water Pollution Control Agency ("MRWPCA") and the Monterey Peninsula Water Management District ("MPWMD"). The desalination plant size is expected to vary depending on whether the GWR Project is included. Without the GWR Project included, a 9.6 million gallon per day ("mgd") plant size is proposed, and with the GWR Project included, a 6.4 mgd plant size is proposed. The Water Supply Project also would involve aquifer storage and recovery through an existing aquifer storage and recovery program between Cal Am and the MPWMD.

In July 2013, Cal Am entered into a settlement agreement with 15 other parties that have intervened in the CPUC proceedings with respect to the Water Supply Project, including several Monterey County government entities, the Office of Ratepayer Advocates of the CPUC and several interest groups (the "WSP Settlement"). Under the WSP

Settlement, the parties have agreed on several matters relating to the Water Supply Project. The WSP Settlement is subject to the pending approval of the CPUC.

A preliminary step to building the Water Supply Project desalination plant is the construction and operation of a test slant well, as well as monitoring well clusters, to confirm the suitability of the property on which permanent intake wells will be located to draw water from under Monterey Bay. The site of the test slant well is on a property owned by one or more affiliates of Cemex, Inc. (collectively, "Cemex"). Cal Am and Cemex have entered into an agreement under which Cal Am acquired a temporary investigative easement to construct and operate the test slant well and a four year option to purchase a permanent easement for construction and operation of slant wells and related pipelines for the Water Supply Project on portions of the Cemex property when the final configuration of the new wells are approved by the California Coastal Commission (the "Coastal Commission").

In November 2014, the Coastal Commission approved a coastal development permit for the test slant well on the Cemex property and a second coastal development permit, enabling Cal Am to construct the portion of the test slant well that will be under state lands (beneath the ocean floor), provided that Cal Am acquires a lease from the California State Lands Commission (the "State Lands Commission"), which owns the state lands. The State Lands Commission executed the required lease on January 22, 2015. On October 6, 2015, the Coastal Commission approved an amendment to Cal Am's permits to operate the test slant well on the Cemex property.

In December 2014, each of MCWD and the Ag Land Trust, an agricultural land conservancy, filed petitions (collectively, the “Test Slant Well Petitions”) against the Coastal Commission and Cal Am, which were ultimately transferred to the jurisdiction of the Santa Cruz County Superior Court. These petitions sought, among other things, a peremptory writ of mandate commanding the Coastal Commission to vacate its decision to approve the coastal development permit relating to the Cemex property, and a permanent injunction restraining Cal Am and the Coastal Commission from taking any action to implement the test slant well project, pending full compliance with the California Environmental Quality Act (“CEQA”) and the California Coastal Act (the “Coastal Act”). After a trial on the merits, the court denied the Test Slant Well Petitions in their entirety. MCWD has appealed this decision, which appeal remains pending.

On January 15, 2015, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in Santa Cruz County Superior Court against the State Lands Commission and Cal Am (the “January 2015 Petition”), seeking relief similar to that sought in its Test Slant Well Petition. On October 1, 2015, pursuant to a stipulation among the parties, the court entered an order staying a hearing on the January 2015 Petition until the appeal regarding the denial of MCWD’s Test Slant Well Petition is resolved.

On November 5, 2015, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief against the Coastal Commission and Cal Am challenging the October 6, 2015 amendment by the Coastal Commission of the permits to operate the test slant well and seeking the issuance of an injunction against further test well pumping until this petition is resolved. This proceeding remains pending.

In addition to the foregoing matters, Cal Am’s ability to move forward on the Water Supply Project is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the WSP Settlement. On August 19, 2015, the statutory deadline for resolving the application related to the Water Supply Project was extended to December 31, 2016 and a procedural schedule was subsequently approved calling for evidentiary hearings to be held in April 2016, with CPUC action on the GWR Project anticipated to occur as early as August 2016. On January 22, 2016, Cal Am submitted testimony that it had reached substantial completion of a water purchase agreement with MRWPCA and MPWMD for the GWR Project, which if approved by the CPUC would result in the smaller plant size of 6.4 mgd. Based on the foregoing, Cal Am estimates that the earliest date by which the Water Supply Project desalination plant could be completed is sometime in 2018. There can be no assurance that Cal Am’s application for the Water Supply Project will be approved or that the Water Supply Project will be completed on a timely basis, if ever.

The projected completion date of the Water Supply Project is beyond the December 31, 2016 deadline for Cal Am to terminate unpermitted diversions from the Carmel River, and Cal Am does not expect to have sufficient other alternative sources of water available by the December 31, 2016 deadline. As a result, on November 20, 2015, Cal Am, along with several Monterey County government agencies, filed an application with the State Water Resources Control Board to modify the 2009 Order to extend the deadline for compliance to December 31, 2020. There can be no assurance that the deadline will be extended or that Cal Am will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order or that any such compliance will not result in material additional costs or obligations to us. While Cal Am believes that its discussions with the State Water Resources Control Board staff have been constructive, there can be no assurance that the deadline will be extended.

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 EPA issued an Emergency Removal/Response Administrative Order directing the performance by VAWC of removal actions to mitigate the release. VAWC and Clean Harbors conducted removal efforts under the order subject to oversight by the EPA and the Virginia Department of Environmental Quality (“VDEQ”), and on May 11, 2015, the EPA issued a notice of completion of the work required under the order. VAWC also has received and responded to a request from the EPA for information regarding the overflow of the diesel fuel tank.

On April 1, 2015, VDEQ issued a Notice of Violation (“NOV”) alleging violations arising from this incident without providing a specific fine or penalty amount. The NOV also alleged violations relating to discharges of chlorinated water into the river that were identified during the course of the response to the Hopewell diesel overflow. VAWC has taken steps to prevent any potential for such discharges going forward. In the second quarter of 2015, VDEQ issued to VAWC a consent order and assessed a civil charge of approximately \$20 thousand with respect to this matter. VAWC has signed the consent order and paid the civil charge.

West Virginia Elk River Freedom Industries Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the WVAWC treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection (“DEP”), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a “Do Not Use” order for all of its approximately 93,000 customer accounts in parts of nine West Virginia counties served by the Charleston treatment plant. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention (“CDC”) and EPA indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC’s customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals were at non-detectable levels remained in place. In addition, based on saved samples taken on or before January 18, 2014, PPH/DiPPH was no longer detected in the water supply as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM were below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the “non-detect” level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC continued to work with laboratories to test down to below 2 ppb of MCHM and announced on March 3, 2014, that it had cleared the system to below this level.

To date, there are 68 pending cases against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone and Putnam counties. Fifty-three of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. (“AWWSC,” and together with WVAWC and the Company, the “American Water Defendants”) were removed to the United States District Court for the Southern District of West Virginia. On December 17, 2015, the federal district court entered orders remanding 52 of the previously removed cases back to the West Virginia Circuit Courts for further proceedings (two of the previously removed cases had been dismissed in the interim). Following that order, seven additional cases were filed against WVAWC in West Virginia Circuit Courts in Kanawha and Putnam counties with respect to this matter. On January 28, 2016, all of the state court cases were referred to West Virginia’s Mass Litigation Panel for further proceedings.

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 (the “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 amended consolidated complaint names several individuals and corporate entities as defendants, including the American Water Defendants. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety of alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program

to protect the purported class members from an alleged increased risk of contracting serious latent disease.

On April 9, 2015, the court in the Federal action denied a motion to dismiss all claims against the Company for lack of personal jurisdiction. A separate motion to dismiss filed by AWWSC and WVAWC (and joined by the Company) asserting various legal defenses in the Federal action was resolved by the court on June 3, 2015. The court dismissed three causes of action but denied the motion to dismiss with respect to the remaining causes of actions and allowed the plaintiffs to continue to pursue the various claims for damages alleged in their amended consolidated complaint.

On July 6, 2015, the plaintiffs in the Federal action filed a motion seeking certification of a class defined to include persons who resided in dwellings served by WVAWC's Kanawha Valley Treatment Plant ("KVTP") on January 9, 2014, persons who owned businesses served by the KVTP on January 9, 2014, and hourly employees who worked for such businesses. The plaintiffs sought a class-wide determination of liability against the American Water Defendants, among others, and of damages to the three groups of plaintiffs as a result of the "Do Not Use" order issued after the Freedom Industries spill.

A court-directed mediation was held at the end of September 2015 with the assistance of private mediators. Representatives of the American Water Defendants, Eastman Chemical, the Federal action plaintiffs, and the plaintiffs in the 53 state court cases as to which removal to Federal court had been sought, as well as insurance carriers for certain of the defendants, participated in the mediation. No resolution was reached and no further mediation discussions have been scheduled to date.

On October 8, 2015, the court in the Federal action granted in part and denied in part the plaintiffs' class certification motion. The court certified a class addressing the alleged fault of Eastman Chemical for tort claims and the alleged fault of the American Water Defendants for tort and breach of contract claims, as well as the comparative fault of Freedom Industries. However, the court granted the joint motion by defendants to exclude certain expert testimony, disallowing the testimony of plaintiffs' economic damages experts, and denied class certification as to any damages, including punitive damages. Thus, determination or quantification of damages, if any, would be made in subsequent proceedings on an individual basis.

On December 17, 2015, the court in the Federal action entered a scheduling order that provides for the trial on class issues to begin in July 2016. During the first week of January 2016, three additional cases were filed against one or more of the American Water Defendants, as well as others, in the U.S. District Court for the Southern District of West Virginia with respect to this matter.

Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney's Office for the Southern District of West Virginia, the West Virginia Attorney General, and the Public Service Commission of West Virginia (the "PSC"). As a result of the U.S. Attorney's Office investigation, Freedom Industries and six former Freedom Industries employees (three of whom also were former owners of Freedom Industries), pled guilty to violations of the federal Clean Water Act.

On May 21, 2014, the PSC issued an Order initiating a General Investigation into certain matters relating to WVAWC's response to the Freedom Industries spill. Three parties have intervened in the proceeding, including the Consumer Advocate Division of the PSC and two attorney-sponsored groups, including one sponsored by some of the plaintiffs' counsel involved in the civil litigation described above. WVAWC has filed testimony regarding its response to the spill and is subject to discovery from PSC staff and the intervenors as part of the General Investigation. Several disputes have arisen between the WVAWC and the intervenors regarding, among other things, the scope of the discovery and the maintenance of confidentiality with regard to certain WVAWC emergency planning documents. In addition, the intervenors and PSC staff filed expert testimony in support of their assertions that WVAWC did not act reasonably with respect to the Freedom Industries spill, and WVAWC has asserted that some of the testimony is outside the scope of the PSC proceeding. The PSC has deferred setting a revised procedural schedule and has not set a final hearing date on the matter.

The Company, WVAWC and the other Company-affiliated entities named in any of the lawsuits believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliated entities intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of these lawsuits, the ongoing government investigations or any legislative initiatives that might affect water utility operations.

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 chemical spill, including the Company's officers and directors. A special committee of the Board of Directors of the Company, comprised of independent directors, investigated the claims made in the demand letter (and similar claims) with the special committee's legal advisor. After completing its investigation, the special committee concluded that the stockholder's claims were without merit and recommended to the Board of Directors that it was not in the best interests of the Company or its stockholders to pursue the demanded litigation. The Board of Directors reviewed the information considered by the special committee, and after careful consideration, accepted the recommendations of the special committee.

General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since April 23, 2008, our common stock has traded on the NYSE under the symbol "AWK." The following table summarizes the per share range of the high and low closing and intraday sales prices of our common stock as reported on the NYSE and the per share cash dividends paid and declared for the years ended December 31, 2015 and 2014:

	Closing Market		Intraday Market		Per Share	
	Prices		Prices		Per Share	Dividends
	High	Low	High	Low	Paid	Declared
2015						
Fourth Quarter	\$60.61	\$55.27	\$61.20	\$54.62	\$ 0.34	\$ 0.68
Third Quarter	55.08	49.17	55.63	48.52	0.34	0.34
Second Quarter	55.45	48.63	55.67	48.36	0.34	0.34
First Quarter	57.36	52.19	57.48	51.84	0.31	—

	Closing Market		Intraday Market		Per Share	
	Prices		Prices		Per Share	Dividends
	High	Low	High	Low	Paid	Declared
2014						
Fourth Quarter	\$55.86	\$47.92	\$56.19	\$47.58	\$ 0.31	\$ 0.31
Third Quarter	50.61	46.41	50.71	45.98	0.31	0.62
Second Quarter	49.45	45.16	49.50	44.86	0.31	0.31
First Quarter	45.56	41.16	45.86	41.07	0.28	—

As of February 19, 2016, there were 178,008,765 shares of common stock outstanding and approximately 2,345 record holders of common stock. Holders of the Company's common stock are entitled to receive dividends when they are declared by the Board of Directors. When dividends on common stock are declared, they are typically paid in March, June, September and December. Future dividends are not guaranteed by the Company and will be dependent on future earnings, financial requirements, contractual provisions of debt agreements and other relevant factors.

In February 2015, the Board of Directors authorized an anti-dilutive common stock repurchase program to mitigate the dilutive effect of shares issued through our dividend reinvestment, employee stock purchase and executive compensation activities. The program allows us to purchase up to 10 million shares of our outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and to facilitate these repurchases, we have entered into a Rule 10b5-1 share repurchase plan with a third party broker, which allows us to repurchase shares at times when we may otherwise be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, we may elect to amend or cancel the program or share repurchase parameters at our discretion to manage dilution.

The following table provides a summary of information about the shares of common stock we purchased during the three months ended December 31, 2015:

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	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
October 1 - October 31, 2015	186,500	\$ 57.22	186,500	9,063,500
November 1 - November 30, 2015	170,254	56.94	170,254	8,893,246
December 1 - December 31, 2015	1,143,246	58.24	1,143,246	7,750,000
Total	1,500,000	57.45	1,500,000	

(a) From April 1, 2015, the date our repurchases under the program commenced, through December 31, 2015, we purchased an aggregate of 2,250,000 shares under our anti-dilutive common stock repurchase program.

ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In millions, except per share data)				
Statement of Operations Data					
Operating revenues	\$3,159	\$3,011	\$2,879	\$2,854	\$2,642
Income from continuing operations	\$476	\$430	\$371	\$374	\$303
Income from continuing operations					
per basic common share	\$2.66	\$2.40	\$2.08	\$2.12	\$1.73
Income from continuing operations					
per diluted common share	\$2.64	\$2.39	\$2.07	\$2.10	\$1.72
Balance Sheet Data					
Total assets (a) (b)	\$17,241	\$16,038	\$15,064	\$14,713	\$14,771
Short-term and long-term debt (a)	\$6,543	\$5,936	\$5,850	\$5,569	\$5,877
Redeemable preferred stock (c)	\$13	\$17	\$19	\$21	\$22
Other Data					
Aggregate dividends declared					
per common share (d)	\$1.36	\$1.24	\$1.12	\$0.98	\$1.13
Cash flows provided by operating activities	\$1,179	\$1,097	\$896	\$956	\$808
Capital expenditures included in					
cash flows used in investing activities	\$(1,160)	\$(956)	\$(980)	\$(929)	\$(925)

- (a) This information has been revised to reflect the retrospective application of Accounting Standard Update 2015-15 Presentation of Debt Issuance Costs, which was adopted by the Company as of December 31, 2015.
- (b) This information has been revised to reflect the retrospective application of Accounting Standard Update 2015-17 Income Taxes, which was adopted by the Company as of December 31, 2015.
- (c) Includes the current portion of redeemable preferred stock, which is included in current portion of long-term debt in the Consolidated Balance Sheets.
- (d) Included in 2011 was a change in the timing of dividend declarations. As a result, five dividend declarations were made during 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the consolidated financial statements and the notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-K should be read as applying to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Forward-Looking Statements," Item 1A—Risk Factors and elsewhere in this Form 10-K.

Executive Overview

American Water is the largest and most geographically diverse investor-owned publicly-traded water and wastewater utility company in the United States, as measured both by operating revenues and population served. We employ approximately 6,700 professionals who provide drinking water, wastewater and other related services to an estimated 15 million people in 47 states, the District of Columbia and Ontario, Canada. Our primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses provide services in 16 states and serve approximately 3.3 million customers based on the number of active service connections to our water and wastewater networks. We also operate several businesses that provide a broad range of related and complementary water and wastewater services in non-regulated markets, which includes four operating segments that individually do not meet the criteria of a reportable segment in accordance with GAAP. These four non-reportable operating segments are collectively presented as our Market-Based Businesses, which is consistent with how management assesses the results of these businesses.

2015 Strategic Focus & Achievements

For 2015, our focus was anchored on five central strategic themes:

- Customers – Our customers are at the center of everything we do.
- In 2015, we achieved customer satisfaction ratings of 91% and service quality ratings of 85%. In addition, we continued to make needed infrastructure investment while implementing operational efficiency improvements to keep customer rates affordable.
- Safety – The health and safety of our employees, customers and the public is both a strategy and a value.
- In 2015, we continued to move our safety culture forward. We implemented a “near miss” reporting program designed for accident prevention and risk education. In addition, our vendors joined us in numerous safety fairs demonstrating options available for protective equipment used across our business.
- People – Our employees and culture are paramount to our success.
- In 2015, we demonstrated our commitment to employees by providing safety and technical training throughout our organization. We also provided business leadership training to virtually all of our front line supervisors across the company.
- Growth – We invested \$1.4 billion in 2015; a record level of annual investment, including:
 - \$1.2 billion to improve infrastructure in our Regulated Businesses;
 - \$64 million for regulated acquisitions, adding approximately 24,000 water and wastewater customers; and
 - \$133 million for the Keystone acquisition.
- Technology and Operational Efficiency – We drove continued cost savings in our regulated businesses.
- We achieved an adjusted O&M efficiency ratio (a non-GAAP measure) of 35.9% in 2015.

2015 Financial Results

For the year ended December 31, 2015, we grew income from continuing operations more than 10%, while making capital investment in our infrastructure and implementing operational efficiency improvements to keep customer rates affordable.

	2015	2014	2013
Income from continuing operations	\$2.64	\$2.39	\$2.07
Loss from discontinued operations, net of tax	\$—	\$(0.04)	\$(0.01)
Diluted earnings per share	\$2.64	\$2.35	\$2.06

Income from continuing operations increased 25 cents per diluted share for year ended December 31, 2015 compared to the prior year. Excluding the 2014 costs related to the Freedom Industries chemical spill in West Virginia of 4 cents per diluted share, income from continuing operations increased 21 cents per diluted share, or about 8.8%. The increase was mainly due to continued growth in both our Regulated Businesses segment and Market-Based Businesses.

Discontinued operations represents the 2014 sale of our Terratec line of business, which was part of our Market-Based Businesses. The loss from discontinued operations, net of tax, reflected in the 2014 financial results includes the loss on the sale, an income tax valuation allowance and the 2014 operating results of the entity prior to the sale.

See “Comparison of Consolidated Results of Operations” and “Segment Results” below for further detailed discussion of the consolidated results of operations, as well as our business segments. All financial information in this Management’s Discussion and Analysis of Financial Condition and Results of Operations reflects continuing operations, unless otherwise noted. See Note 3—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for further details on our discontinued operations.

Regulatory Matters

The table below provides rate authorizations effective from 2013 through 2015. The table depicts annualized incremental revenues assuming a constant water sales volume:

	For the Years Ended December 31,		
	2015	2014	2013
	(In millions)		
General rate cases by state			
Pennsylvania (a)	\$ —	\$ —	\$ 26
New Jersey (b)	22	—	—
Kentucky (c)	—	—	7
Indiana (d)	5	—	—
California (e)	5	2	3
West Virginia (f)	—	—	9
Iowa (g)	—	4	—
Other	1	—	—
Total General rate cases	\$ 33	\$ 6	\$ 45

(a) On December 19, 2013, a rate case settlement was approved with an effective date of January 1, 2014.

(b) Final order was received on September 11, 2015 with new rates effective September 21, 2015.

(c) Final order was received on October 25, 2013 with rates effective July 27, 2013.

(d) Final order issued on January 28, 2015 with new rates effective January 29, 2015.

(e) Final order for test year 2015 issued April 9, 2015 with rates effective to January 1, 2015. The 2014 and 2013 increases are from step rate and attrition year filings with rates effective on April 1, 2014 and April 1, 2013, respectively.

(f) Final order issued on September 26, 2013 by the West Virginia Public Service Commission. New rates were put into effect October 11, 2013.

(g) Effective date of new rates was April 18, 2014. The increase included approximately \$3 million of interim rates that were effective May 10, 2013.

On April 30, 2015, our West Virginia subsidiary filed a general rate case requesting \$36 million in additional annualized water and wastewater revenues. On July 31, 2015, our Missouri subsidiary filed a general rate case requesting \$25 million in additional annualized revenue. Lastly, on October 30, 2015 our Virginia subsidiary filed a general rate case requesting \$9 of additional annualized revenue.

In July 2015, Cal Am filed an application with the CPUC to request changes to the present rate design and the emergency conservation and rationing plan for water customers in certain areas within its Monterey County service district. If approved, the proposed changes would allow: (i) recovery of existing under-collections of the net water revenue adjustment mechanism/modified cost balancing account (“WRAM/MCBA”) balance, amounting to approximately \$51 million as of December 31, 2015, over 20 years earning a pretax rate of 8.41%; (ii) an annual consumption true-up mechanism and rate design that provide for more timely collection of the cost of service; and (iii) modification of existing conservation and rationing plans. On November 4, 2015, Cal Am received an Assigned Commissioner’s Scoping Memo and Ruling (“Memo”) related to our WRAM filing. The Memo called for the suspension of the WRAM surcharges related to 2013 and 2014 under-collections and required Cal Am to retain an independent accounting firm to verify the actual customer water usage and billed revenue for the Monterey County service district for years ended December 31, 2013 and 2014. The results of the auditors verification was filed with the CPUC in January 2016. On February 1, 2016, Cal Am filed a motion with the CPUC to restart the surcharge collections for 2013 and 2014.

On February 16, 2016, the Commission's Office of Ratepayer Advocates ("ORA") issued a report on Cal Am's requests to address Monterey rate design and the historical WRAM balances. The ORA recommends a disallowance of \$17 million of the Monterey WRAM balance and also recommends that the amortization occur over five years with no interest. Additionally, the ORA recommends the CPUC deny Cal Am's request for annual consumption true up pilot program. We are in the process of reviewing the ORA proposal and will submit our response on March 4, 2016; however, we do not believe that the ORA proposals have merit. We expect a CPUC decision in mid to late 2016.

On December 30, 2015, our Indiana subsidiary filed a rate case true-up for additional annualized revenues in the amount of \$2 million which were authorized and effective on January 29, 2016. On January 21, 2016, our Illinois subsidiary filed a general rate case requesting an additional \$40 million in annualized revenues. On January 29, 2016, our Kentucky subsidiary filed a general rate case requesting an additional \$14 million in annualized water revenues. On February 1, 2016, Cal Am received approval from the CPUC to extend its cost of capital proceeding for an additional year. As such Cal Am's current cost of capital will remain in place through 2017.

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to

replace aging infrastructure. The following table details additional annualized revenues authorized through infrastructure surcharge mechanisms that were effective from 2013 through 2015:

	For the Years Ended December 31,		
	2015	2014	2013
	(In millions)		
Infrastructure charges by state			
Pennsylvania (a)	\$ 14	\$ —	\$ 20
New Jersey (b)	9	17	4
Missouri (c)	2	13	8
Indiana (d)	—	—	4
Illinois (e)	6	2	—
New York (f)	1	2	—
Tennessee (g)	2	1	—
Total Infrastructure charges	\$ 34	\$ 35	\$ 36

- (a) Quarterly filings made with PUC in 2015 for \$8 million, \$4 million and \$2 million effective October 1, 2015, July 1, 2015 and April 1, 2015, respectively. No infrastructure charges in 2014 as a result of general rate case effective January 1, 2014 utilized forecasted test year and therefore qualifying infrastructure improvements already reflected in rates. For 2013, \$7 million, \$4 million, \$3 million and \$6 million effective October 1, 2013, July 1, 2013, April 1, 2013 and January 1, 2013, respectively.
- (b) Semi-annual filings made with the PUC. For 2015, \$9 million effective January 1, 2015. For 2014, \$7 million and \$10 million effective July 1, 2014 and January 1, 2014, respectively. For 2013, \$4 million effective July 1, 2013.
- (c) For 2015, \$2 million effective June 27, 2015. For 2014, \$9 million and \$4 million effective December 31, 2014 and May 30, 2014, respectively. For 2013, \$5 million and \$3 million effective June 21, 2013 and December 14, 2013, respectively.
- (d) Effective December 18, 2013.
- (e) For 2015, \$1 million and \$5 million effective February 1, 2015 and January 1, 2015, respectively. For 2014, \$2 million effective January 1, 2014.
- (f) For 2015, \$1 million effective December 1, 2015. For 2014, \$1 million effective January 1, 2014 and March 3, 2014.
- (g) For 2015, \$2 million effective June 29, 2015. For 2014, \$1 million effective April 15, 2014.

On December 15, 2015, our Pennsylvania subsidiary filed for additional annualized revenues from infrastructure charges in the amount of \$11 million which were authorized and effective on January 1, 2016. On December 18, 2015, our Illinois subsidiary filed for additional annualized revenues from infrastructure charges in the amount of \$1 million, which were authorized and also effective on January 1, 2016. On January 14, 2016, our Indiana subsidiary filed for additional annualized revenues from infrastructure charges in the amount of \$3 million.

As of February 24, 2016, we are awaiting final general rate case orders in five states, requesting additional annualized revenue of \$123 million. We are also awaiting approval of \$5 million in additional annualized revenues for infrastructure charges. There is no assurance that all or any portion of these requests will be granted.

Technology and Operational Efficiency – Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our O&M efficiency ratio. Our adjusted O&M efficiency ratio for the year ended December 31, 2015 was 35.9%, compared to 36.7% for the year ended December 31, 2014. The improvement in the 2015 O&M efficiency ratio over this period was attributable to both an increase in revenue and decreases in O&M expenses.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated Businesses' operations. This information is intended to enhance an investor's overall understanding of our operating performance. The O&M efficiency ratio is not a GAAP financial measure and may not be comparable to other companies' operating measures and should not be used in place of the GAAP information provided elsewhere in this report.

Our O&M efficiency ratio is defined as our regulated O&M expenses divided by regulated operating revenues, where both O&M expenses and operating revenues were adjusted to eliminate purchased water expense. Additionally, from the O&M expenses, we excluded the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M expenses but for consolidated financial reporting purposes are categorized within other line items in the accompanying Consolidated Statements of Operations. In addition, to the standard adjustments to the O&M efficiency ratio for the years ended December 31, 2014 and 2013, we have also excluded from operating revenues and O&M expenses the estimated impact from changes in consumption as a result of weather and the Freedom Industries chemical spill in West Virginia, as applicable. We excluded all the above items from the calculation as we believe such items are not reflective of management's ability to increase efficiency of the Company's regulated operations.

The following table provides the calculation and reconciliation that compares O&M expenses and operating revenues, as determined in accordance with GAAP, and to those amounts utilized in the calculation of our adjusted O&M efficiency ratio for the years ended December 31:

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	2015	2014	2013
	(In millions)		
Total operation and maintenance expenses	\$1,404	\$1,350	\$1,289
Less:			
Operation and maintenance expenses—Market-Based Businesses	358	289	241