

Edgar Filing: American Water Works Company, Inc. - Form 10-Q

American Water Works Company, Inc.
Form 10-Q
May 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission file number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(856) 346-8200

(Registrant's telephone number, including area code)

Edgar Filing: American Water Works Company, Inc. - Form 10-Q

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding as of April 27, 2017
Common Stock, \$0.01 par value per share	178,191,126 shares

(excludes 4,064,010 treasury shares as of April 27, 2017)

TABLE OF CONTENTS

AMERICAN WATER WORKS COMPANY, INC.

Quarterly REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2017

INDEX

<u>FORWARD LOOKING STATEMENTS</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS</u>	3
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	30
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	31
<u>PART II. OTHER INFORMATION</u>	32
<u>ITEM 1. LEGAL PROCEEDINGS</u>	32
<u>ITEM 1A. RISK FACTORS</u>	34
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	34
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	34
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	34
<u>ITEM 5. OTHER INFORMATION</u>	34
<u>ITEM 6. EXHIBITS</u>	35
<u>SIGNATURES</u>	36
<u>EXHIBIT INDEX</u>	37

FORWARD-LOOKING STATEMENTS

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

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

- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness and outcome of regulatory commissions’ actions concerning rates, capital structure, authorized return on equity, capital investment, 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, public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections;
- weather conditions, patterns, events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes, tornadoes, electrical storms and solar flares;
- the outcome of litigation and government action related to the Freedom Industries chemical spill in West Virginia, including matters pertaining to the binding global agreement in principle to settle claims related to this chemical spill;
- our ability to appropriately maintain current infrastructure, including our operational and information technology (“IT”) systems, and manage the expansion of our business;
- exposure or infiltration of our critical infrastructure, operational technology and IT systems through physical or cyber attacks or other disruptions;
- 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 or water provided to our customers;
- 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 obtain, new customers in our market-based

businesses;

risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;

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

our ability to maintain safe work sites;

1

- our exposure to liabilities related to environmental laws and similar matters resulting from, among other things, water and wastewater service provided to customers, including, for example, our water management solutions that are focused on customers in the natural gas exploration and production market;
- changes in general economic, political, business and financial market conditions;
- 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 funding requirements 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;
- the ability to retain and attract qualified employees;
- civil disturbances or terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risk factors and other statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 (“Form 10-K”), and in this Form 10-Q, 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-Q 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. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In millions, except share and per share data)

	March 31, 2017	December 31, 2016
ASSETS		
Property, plant and equipment	\$ 20,189	\$ 19,954
Accumulated depreciation	(5,061)	(4,962)
Property, plant and equipment, net	15,128	14,992
Current assets:		
Cash and cash equivalents	78	75
Restricted funds	23	20
Accounts receivable, net	250	269
Unbilled revenues	227	263
Materials and supplies	41	39
Other	148	118
Total current assets	767	784
Regulatory and other long-term assets:		
Regulatory assets	1,298	1,289
Goodwill	1,345	1,345
Other	72	72
Total regulatory and other long-term assets	2,715	2,706
TOTAL ASSETS	\$ 18,610	\$ 18,482

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (Unaudited)

(In millions, except share and per share data)

	March 31, 2017	December 31, 2016
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock (\$0.01 par value, 500,000,000 shares authorized, 182,231,713 and 181,798,555 shares issued, respectively)	\$ 2	\$ 2
Paid-in-capital	6,400	6,388
Accumulated deficit	(759)	(873)
Accumulated other comprehensive loss	(82)	(86)
Treasury stock, at cost (4,502,221 and 3,701,867 shares, respectively)	(274)	(213)
Total common stockholders' equity	5,287	5,218
Long-term debt	5,744	5,749
Redeemable preferred stock at redemption value	9	10
Total long-term debt	5,753	5,759
Total capitalization	11,040	10,977
Current liabilities:		
Short-term debt	980	849
Current portion of long-term debt	574	574
Accounts payable	108	154
Accrued liabilities	453	609
Taxes accrued	67	31
Interest accrued	101	63
Other	135	112
Total current liabilities	2,418	2,392
Regulatory and other long-term liabilities:		
Advances for construction	297	300
Deferred income taxes, net	2,629	2,596
Deferred investment tax credits	23	23
Regulatory liabilities	404	403
Accrued pension expense	420	419
Accrued postretirement benefit expense	86	87
Other	68	67
Total regulatory and other long-term liabilities	3,927	3,895
Contributions in aid of construction	1,225	1,218
Commitments and contingencies (see Note 8)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 18,610	\$ 18,482

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Operations (Unaudited)

(In millions, except per share data)

	For the Three Months Ended March 31,	
	2017	2016
Operating revenues	\$756	\$743
Operating expenses:		
Operation and maintenance	337	348
Depreciation and amortization	124	116
General taxes	68	66
Gain on asset dispositions and purchases	-	(1)
Total operating expenses, net	529	529
Operating income	227	214
Other income (expense):		
Interest, net	(85)	(80)
Other, net	3	2
Total other income (expense)	(82)	(78)
Income from continuing operations before income taxes	145	136
Provision for income taxes	52	54
Net income attributable to common stockholders	\$93	\$82
Basic earnings per share:		
Net income attributable to common stockholders	\$0.52	\$0.46
Diluted earnings per share:		
Net income attributable to common stockholders	\$0.52	\$0.46
Weighted-average common shares outstanding:		
Basic	178	178
Diluted	179	179
Dividends declared per common share	—	—

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)

	For the Three Months Ended March 31,	
	2017	2016
Net income attributable to common stockholders	\$93	\$82
Other comprehensive income (loss), net of tax:		
Pension amortized to periodic benefit cost:		
Actuarial loss, net of tax of \$1 in 2017 and 2016	2	1
Foreign currency translation adjustment	(1)	1
Unrealized gain (loss) on cash flow hedges, net of tax of \$2 and \$(1) in 2017 and 2016, respectively	3	(1)
Net other comprehensive income	4	1
Comprehensive income attributable to common stockholders	\$97	\$83

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

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	For the Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$93	\$82
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	124	116
Deferred income taxes and amortization of investment tax credits	64	65
Provision for losses on accounts receivable	4	6
Gain on asset dispositions and purchases	—	(1)
Pension and non-pension postretirement benefits	15	15
Other non-cash, net	(18)	(24)
Changes in assets and liabilities:		
Receivables and unbilled revenues	51	49
Pension and non-pension postretirement benefit contributions	(11)	(14)
Accounts payable and accrued liabilities	(72)	15
Other assets and liabilities, net	27	(49)
Net cash provided by operating activities	277	260
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(270)	(284)
Acquisitions	(2)	(22)
Proceeds from sale of assets and securities	—	1
Removal costs from property, plant and equipment retirements, net	(13)	(17)
Net funds restricted	(3)	(1)
Net cash used in investing activities	(288)	(323)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(4)	(11)
Net short-term borrowings with maturities less than three months	131	211
Proceeds from issuances of employee stock plans and DRIP	10	10
Advances and contributions for construction, net of refunds of \$4 and		
\$4, respectively	7	7
Debt issuance costs	—	(1)
Dividends paid	(67)	(61)
Anti-dilutive stock repurchase	(54)	(62)
Taxes paid related to employee stock plans	(9)	(9)
Net cash provided by financing activities	14	84
Net increase in cash and cash equivalents	3	21
Cash and cash equivalents as of beginning of period	75	45

Edgar Filing: American Water Works Company, Inc. - Form 10-Q

Cash and cash equivalents as of end of period	\$78	\$66
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of end of period	\$142	\$166

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

7

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In millions)

	Common Stock		Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Par Value				Shares	At Cost	
Balance as of December 31, 2016	181.8	\$ 2	\$ 6,388	\$ (873)	\$ (86)	(3.7)	\$ (213)	\$ 5,218
Cumulative effect of change in								
accounting principle	—	—	—	21	—	—	—	21
Net income attributable to common stockholders	—	—	—	93	—	—	—	93
Direct stock reinvestment and								
purchase plan	—	—	3	—	—	—	—	3
Employee stock purchase plan	—	—	2	—	—	—	—	2
Stock-based compensation activity	0.4	—	7	—	—	(0.1)	(7)	-
Repurchases of common stock	—	—	—	—	—	(0.7)	(54)	(54)
Net other comprehensive income								
(loss)	—	—	—	—	4	—	—	4
Balance as of March 31, 2017	182.2	\$ 2	\$ 6,400	\$ (759)	\$ (82)	(4.5)	\$ (274)	\$ 5,287

	Common Stock		Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Par Value				Shares	At Cost	
Balance as of December 31, 2015	180.9	\$ 2	\$ 6,351	\$ (1,073)	\$ (88)	(2.6)	\$ (143)	\$ 5,049
Net income attributable to common stockholders	—	—	—	82	—	—	—	82
Direct stock reinvestment and	—	—	1	—	—	—	—	1

Edgar Filing: American Water Works Company, Inc. - Form 10-Q

purchase plan								
Employee stock purchase plan	—	—	1	—	—	—	—	1
Stock-based compensation activity	0.5	—	15	—	—	(0.1)	(5)	10
Repurchases of common stock	—	—	—	—	—	(1.0)	(62)	(62)
Net other comprehensive income								
(loss)	—	—	—	—	1	—	—	1
Balance as of March 31, 2016	181.4	\$ 2	\$ 6,368	\$ (991)\$ (87) (3.7)	\$(210)	\$ 5,082

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

American Water Works Company, Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited)

(Unless otherwise noted, in millions, except per share data)

Note 1: Basis of Presentation

The unaudited consolidated financial statements provided in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (collectively, “American Water” or the “Company”) in which a controlling interest is maintained after the elimination of intercompany accounts and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of March 31, 2017 and results of operations and cash flows for all periods presented have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The Consolidated Balance Sheet as of December 31, 2016 is derived from the Company's audited consolidated financial statements as of December 31, 2016. The unaudited financial statements and notes included in this report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (“Form 10-K”) which provides a more complete discussion of the Company's accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, due primarily to the seasonality of the Company's operations.

Note 2: New Accounting Standards

The Company adopted the following accounting standard on January 1, 2017:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements (or Other Significant Matters)
Simplification of Employee Share-Based Payment Accounting	Simplified accounting and disclosure requirements for share-based payment awards. The updated guidance addresses simplification in areas such as: (i) the recognition of excess tax benefits and	January 1, 2017	Modified retrospective for the recognition of excess tax benefits and deficiencies; full retrospective for the classification of excess tax benefits and taxes	The adoption of this standard resulted in a cumulative effect to increase retained earnings by \$21, with an offsetting decrease to deferred income taxes, net. Also, the adoption resulted in a net increase in cash flows from operating activities and a net decrease in cash flows from financing activities of \$14 and \$13 for the three months ended March 31, 2017 and 2016, respectively, on the Consolidated Statements

deficiencies; (ii) the classification of excess tax benefits and taxes paid on the Consolidated Statements of Cash Flows; (iii) election of an accounting policy for forfeitures; and (iv) the amount an employer can withhold to cover income taxes and still qualify for equity classification.

paid on the Consolidated Statements of Cash Flows

of Cash Flows.

The following recently issued accounting standards are not yet required to be adopted by the Company as of March 31, 2017:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements (or Other Significant Matters)
Revenue from Contracts with Customers	Changes the criteria for recognizing revenue from a contract with a customer. Replaces existing guidance on revenue recognition, including most industry specific guidance. The objective is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods and services to customers at an amount the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing and uncertainty of revenue and related cash flows.	January 1, 2018; early adoption permitted	Full or modified retrospective	The Company is evaluating the impact on the consolidated financial statements and related disclosures, as well as the transition method to be used to adopt the guidance. The Company is also considering the impacts of the new standard on its accounting for contributions in aid of construction. The Company does not expect to early adopt.
Classification of Certain Cash Receipts and Cash Payments on the Statement of Cash Flows	Provides guidance on the presentation and classification in the statement of cash flows for the following cash receipts and payments: (i) debt prepayment or debt extinguishment costs; (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the	January 1, 2018; early adoption permitted	Retrospective	The Company does not anticipate significant impacts on its Consolidated Statements of Cash Flows.

borrowing; (iii) contingent consideration payments made after a business combination; (iv) proceeds from the settlement of insurance claims; (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions; and (viii) separately identifiable cash flows and application of the predominance principle.

Presentation of Changes in Restricted Cash on the Statement of Cash Flows	Updates the accounting and disclosure guidance for the classification and presentation of changes in restricted cash on the statements of cash flows. The amended guidance requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents and amounts described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will now be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.	January 1, 2018; early adoption permitted	Retrospective	The Company does not anticipate significant impacts on its Consolidated Statements of Cash Flows.
Clarifying the Definition of a Business	Updates the accounting guidance to clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions, or disposals, of assets or businesses.	January 1, 2018; early adoption permitted	Prospective	The Company is evaluating the impact on the consolidated financial statements and related disclosures.
Gains and Losses from the Derecognition of Nonfinancial	Updated the guidance to clarify the accounting for gains and losses resulting from the derecognition of nonfinancial	January 1, 2018; early adoption	Full or modified retrospective	The Company is evaluating the impact on the consolidated financial statements and related disclosures.

Assets	assets and partial sale of nonfinancial assets. The guidance also clarifies the definition of an in-substance nonfinancial asset.	permitted		
Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Updated authoritative guidance requires the service cost component of net periodic benefit cost to be presented in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. The remaining components of net periodic benefit cost are required to be presented separately from the service cost component in an income statement line item outside of operating income. Also, the guidance allows for only the service cost component to be eligible for capitalization. The updated guidance does not impact the accounting for net periodic benefit costs as regulatory assets or liabilities.	January 1, 2018; early adoption permitted	Retrospective for the presentation of service cost component; prospective for the capitalization of service cost component	The Company is evaluating the impact on the consolidated financial statements and related disclosures.
Accounting for Leases	Updated the accounting and disclosure guidance for leasing arrangements. Under this guidance, a lessee will be required to recognize the following for all leases, excluding short-term leases, at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the guidance, lessor accounting is largely unchanged.	January 1, 2019; early adoption permitted	Modified retrospective	The Company is evaluating the effect on the consolidated financial statements, related disclosures, as well as the timing of adoption.

Simplification of Goodwill Impairment Testing	Updated authoritative guidance which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in the update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying value exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.	January 1, 2020; early adoption permitted	Prospective	The Company is evaluating the impact on the consolidated financial statements and related disclosures, as well as the timing of adoption.
Measurement of Credit Losses	Updated the accounting guidance on reporting credit losses for financial assets held at amortized cost basis and available-for-sale debt securities. Under this guidance, expected credit losses are required to be measured based on historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. Also, this guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down.	January 1, 2020; early adoption permitted	Modified retrospective	The Company is evaluating the impact on the consolidated financial statements and related disclosures, as well as the timing of adoption.

Note 3: Acquisitions

During the three months ended March 31, 2017, the Company closed on two water system acquisitions for a total aggregate purchase price under \$1. Also, our Regulated Business made a non-escrowed deposit of \$2 related to the acquisition of the McKeesport, Pennsylvania wastewater system which is expected to close in the fourth quarter of 2017.

On April 3, 2017, the Company acquired all of the outstanding capital stock of Shorelands Water Company, Inc. for total consideration of \$33, in the form of approximately 0.4 shares of the Company's common stock. Assets acquired, principally utility plant, totaled \$26. Liabilities assumed totaled \$19, including \$5 of contributions in aid of construction, and assumed debt of \$6. This acquisition will be recorded during the second quarter of 2017 and includes \$27 of goodwill, which will be reported in the Company's Regulated Businesses segment. The preliminary price allocation related to this acquisition will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date.

Note 4: Stockholders' Equity

Accumulated Other Comprehensive Loss

The following table presents changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2017 and 2016, respectively:

	Defined Benefit Plans				Accumulated	
	Funded Status	Amortization of Prior Service Credits	Amortization of Actuarial Loss	Foreign Currency Translation	Gain (Loss) on Cash Flow Hedges	Other Comprehensive Loss
Beginning balance as of December 31, 2016	\$ (147)	\$ 1	\$ 42	\$ 2	\$ 16	\$ (86)
Other comprehensive income (loss)						
before reclassifications	—	—	—	(1)	3	2
Amounts reclassified from accumulated						
other comprehensive loss	—	—	2	—	—	2
Net other comprehensive income (loss)	—	—	2	(1)	3	4
Ending balance as of March 31, 2017	\$ (147)	\$ 1	\$ 44	\$ 1	\$ 19	\$ (82)
Beginning balance as of December 31, 2015	\$ (126)	\$ 1	\$ 36	\$ 2	\$ (1)	\$ (88)
Other comprehensive income (loss)						
before reclassifications	—	—	—	1	(1)	—
Amounts reclassified from accumulated						
other comprehensive loss	—	—	1	—	—	1
Net other comprehensive income (loss)	—	—	1	1	(1)	1
Ending balance as of March 31, 2016	\$ (126)	\$ 1	\$ 37	\$ 3	\$ (2)	\$ (87)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs have been capitalized as a regulatory asset. These accumulated other comprehensive income loss components are included in the computation of net periodic pension cost. See Note 7— Pension and Other Postretirement Benefits.

The amortization of the loss on cash flow hedges is reclassified to net income during the period incurred and is included in interest, net in the accompanying Consolidated Statements of Operations.

Anti-dilutive Stock Repurchase Program

During the three months ended March 31, 2017, the Company repurchased 0.7 shares of common stock in the open market at an aggregate cost of \$54 under the anti-dilutive stock repurchase program authorized by the Company's Board of Directors in 2015. As of March 31, 2017, there were 6.1 shares of common stock available for repurchase under the program.

Note 5: Long-Term Debt

The following long-term debt was retired through sinking fund provisions, optional redemptions or payment at maturity during the three months ended March 31, 2017:

Company	Type	Rate
---------	------	------