

Merriman Holdings, Inc  
Form 15-12B  
March 30, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 15**

**CERTIFICATION AND NOTICE OF TERMINATION OF REGISTRATION UNDER SECTION 12(g) OF THE SECURITIES AND EXCHANGE ACT OF 1934 OR SUSPENSION OF DUTY TO FILE REPORTS UNDER SECTIONS 13 AND 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**Commission File No. 001-15831**

**MERRIMAN HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**250 Montgomery Street, 16th Floor,**

**San Francisco, California 94104**

**(Address of Principal Executive Offices) (Zip Code)**

**Registrant's telephone number, including area code (415) 248-5600**

**Common Stock, par value \$0.0001 per share**

(Title of each class of securities covered by this Form)

**None**

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(Title of all other classes of securities for which a duty  
to file reports under section 13(a) or 15(d) remains)

Please place an X in the box(es) to designate the appropriate rule provision(s) relied upon to terminate or suspend the  
duty to file reports:

Rule 12g-4(a)(1) ..  
Rule 12g-4(a)(2) ..  
Rule 12h-3(b)(1)(i) x  
Rule 12h-3(b)(1)(ii) ..  
Rule 15d-6 ..

Approximate number of holders of record as of the certification or notice date: 270

Pursuant to the requirements of the Securities Exchange Act of 1934, Merriman Holdings, Inc. has caused this  
certification/notice to be signed on its behalf by the undersigned duly authorized person.

Date: March 30, 2016 By: /s/ D. JONATHAN MERRIMAN  
D. Jonathan Merriman  
Chief Executive Officer

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Long-term debt

5,281

7,715

For derivative instruments that are designated and qualify as fair-value hedges, the gain or loss on the hedge instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current net income. The Company includes the gain or loss on the derivative instrument and the offsetting loss or gain on the hedged item in interest expense as follows:

Income Statement Classification	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest, net				
Gain (loss) on swap	\$ 385	\$ 1,121	\$ (2,669)	\$ 2,384
(Loss) gain on borrowing	(246)	(800)	2,434	(2,072)
Hedge Ineffectiveness	139	321	(235)	312

On September 10, 2013, the Company announced a tender offer for its 6.085% Senior Notes due 2017 (the "Notes"). The offer was contingent upon the satisfaction of certain conditions. These conditions were satisfied concurrent with the expiration of the offer on October 7, 2013, whereupon the Company agreed to repurchase \$225,800 in aggregate principal amount of the Notes that had been validly tendered. On October 8, 2013, the Company paid \$271,798 to effect the tender, which, in addition to the principal, included \$6,603 of accrued interest and a repurchase premium of \$39,395. In October 2013, the Company recorded a loss on debt extinguishment of \$40,582, which included the repurchase premium, a write-off of \$525 for unamortized debt issuance costs and transaction fees of \$662.

#### Note 7: Short-Term Debt

Short-term debt consists of commercial paper borrowings totaling \$389,435 (net of discount of \$65) at September 30, 2013 and \$269,985 (net of discount of \$15) at December 31, 2012. Included in the September 30, 2013 balance was an August 2013 borrowing for \$20,000 that matures in February 2014.

On September 9, 2013, AWCC and its lenders agreed to increase total commitments under AWCC's revolving credit facility from \$1,000,000 to \$1,250,000. In addition, \$1,180,000 of the credit facility was extended from its original termination date of October 2017 to October 2018. Other terms and conditions of the existing facility remained unchanged. The Company incurred \$1,126 of issuance costs through September 30, 2013 in connection with the increased lending commitments; these costs will be amortized over the remaining extended life of the credit facility.

At the same time, the Company also announced an increase in the maximum borrowing capability of its commercial paper program from \$700,000 to \$1,000,000.

Note 8: Income Taxes

The Company's estimated annual effective tax rate for the nine months ended September 30, 2013 was 39.7% compared to 40.2% for the nine months ended September 30, 2012, excluding various discrete items.

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The Company's actual effective tax rates on continuing operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Actual effective tax rate on continuing operations	39.5%	39.6%	38.8%	40.4%

Included in 2013 are discrete items including \$3,274 of tax benefits associated with an entity reorganization within the Company's Market-Based segment that allowed for the utilization of state net operating loss carryforwards and the release of a valuation allowance.

The Company adopted updated income tax accounting guidance at June 30, 2013, and as a result, reclassified \$74,360 of unrecognized tax benefit from other long-term liabilities to deferred income taxes at December 31, 2012 to conform to the current presentation in the accompanying Consolidated Balance Sheets.

Note 9: Pension and Other Postretirement Benefits

The following table provides the components of net periodic benefit costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Components of net periodic pension benefit cost:				
Service cost	\$ 9,468	\$ 8,507	\$ 28,404	\$ 25,521
Interest cost	17,024	17,522	51,072	52,564
Expected return on plan assets	(22,108)	(19,619)	(66,322)	(58,856)
Amortization of:				
Prior service cost	181	181	543	542
Actuarial loss	9,293	7,402	27,878	22,207
Net periodic pension benefit cost	\$ 13,858	\$ 13,993	\$ 41,575	\$ 41,978
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Components of net periodic other postretirement benefit cost:				
Service cost	\$ 3,820	\$ 3,526	\$ 11,461	\$ 10,577
Interest cost	7,175	7,859	21,525	23,575
Expected return on plan assets	(7,571)	(7,140)	(22,713)	(21,421)
Amortization of:				
Prior service credit	(548)	(479)	(1,642)	(1,436)
Actuarial loss	2,782	2,384	8,346	7,153
Net periodic other postretirement benefit cost	\$ 5,658	\$ 6,150	\$ 16,977	\$ 18,448

The Company contributed \$56,675 to its defined benefit pension plans in the first nine months of 2013 and expects to contribute \$10,480 during the balance of 2013. In addition, the Company contributed \$20,989 for the funding of its other postretirement plans in the first nine months of 2013 and expects to contribute \$6,996 during the balance of 2013.

Note 10: Commitments and Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. At September 30, 2013, the Company has accrued approximately \$1,400 as probable costs and it is reasonably possible that additional losses could range up to \$28,900 for these matters. For certain matters, the Company is unable to estimate possible losses. The Company believes that damages or settlements recovered by plaintiffs in such claims or actions, if any, will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

The Company enters into agreements for the provision of services to water and wastewater facilities for the United States military, municipalities and other customers. The Company's military services agreements expire between 2051 and 2060 and have remaining performance commitments as measured by estimated remaining contract revenue of \$2,009,787 at September 30, 2013. The military contracts are subject to customary termination provisions held by the U.S. Federal Government prior to the agreed upon contract expiration. The Company's Operations and Maintenance agreements with municipalities and other customers expire between

2013 and 2048 and have remaining performance commitments as measured by estimated remaining contract revenue of \$954,052 at September 30, 2013. Some of the Company's long-term contracts to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 11: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection, and as such, the Company periodically becomes subject to environmental claims in the normal course of business. Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to \$3,300 and \$4,400 at September 30, 2013 and December 31, 2012, respectively. The accrual relates to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration (NOAA) requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company has agreed to pay \$1,100 annually from 2010 through 2016. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company's regulatory assets at September 30, 2013 and December 31, 2012 include \$8,178 and \$8,656, respectively, related to the NOAA agreement.

Note 12: Earnings per Common Share

Earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security. The Company has participating securities related to restricted stock units, granted under the Company's 2007 Omnibus Equity Compensation Plan, that earn dividend equivalents on an equal basis with common shares. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities.

The following is a reconciliation of the Company's income from continuing operations, loss from discontinued operations, net income and weighted-average common shares outstanding for calculating basic earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic:				
Income from continuing operations	\$ 150,665	\$ 154,111	\$ 309,571	\$ 320,026
Loss from discontinued operations	0	(299)	0	(17,434)
Net income	150,665	153,812	309,571	302,592
Less: Distributed earnings to common shareholders	50,007	44,323	99,929	125,634
Less: Distributed earnings to participating securities	19	20	41	51

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Undistributed earnings	100,639	109,469	209,601	176,907
Undistributed earnings allocated to common shareholders	100,598	109,423	209,520	176,834
Undistributed earnings allocated to participating securities	41	46	81	73
Total income from continuing operations available to common shareholders, basic	\$ 150,605	\$ 154,045	\$ 309,449	\$ 319,902
Total income available to common shareholders, basic	\$ 150,605	\$ 153,746	\$ 309,449	\$ 302,468
Weighted-average common shares outstanding, basic	177,965	176,621	177,671	176,290
Basic earnings per share:(a)				
Income from continuing operations	\$ 0.85	\$ 0.87	\$ 1.74	\$ 1.81
Loss from discontinued operations, net of tax	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.10)
Net income	\$ 0.85	\$ 0.87	\$ 1.74	\$ 1.72

(a) Amounts may not sum due to rounding.

Diluted earnings per common share is based on the weighted-average number of common shares outstanding adjusted for the dilutive effect of common stock equivalents related to the restricted stock units, stock options, and employee stock purchase plan. The dilutive effect of the common stock equivalents is calculated using the treasury stock method and expected proceeds on vesting of the restricted stock units, exercise of the stock options and purchases under the employee stock purchase plan.

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The following is a reconciliation of the Company's income from continuing operations, loss from discontinued operations, net income and weighted-average common shares outstanding for calculating diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Diluted:				
Total income from continuing operations available to common shareholders, basic	\$ 150,605	\$ 154,045	\$ 309,449	\$ 319,902
Loss from discontinued operations, net of tax	0	(299)	0	(17,434)
Total income available to common shareholders, basic	150,605	153,746	309,449	302,468
Undistributed earnings allocated to participating securities	41	46	81	73
Total income from continuing operations available to common shareholders, diluted	\$ 150,646	\$ 154,091	\$ 309,530	\$ 319,975
Total income available to common shareholders, diluted	\$ 150,646	\$ 153,792	\$ 309,530	\$ 302,541
Weighted-average common shares outstanding, basic	177,965	176,621	177,671	176,290
Stock-based compensation:				
Restricted stock units	502	608	473	585
Stock options	685	610	760	610
Employee stock purchase plan	2	2	2	1
Weighted-average common shares outstanding, diluted	179,154	177,841	178,906	177,486
Diluted earnings per share:(a)				
Income from continuing operations	\$ 0.84	\$ 0.87	\$ 1.73	\$ 1.80
Loss from discontinued operations, net of tax	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.10)
Net income	\$ 0.84	\$ 0.86	\$ 1.73	\$ 1.70

(a) Amounts may not sum due to rounding.

The following potentially dilutive common stock equivalents were not included in the earnings per share calculations because they were anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	330	620	330	620
Restricted stock units where certain performance conditions were not met	88	36	89	37

Note 13: Fair Value of Assets and Liabilities

Fair Value of Financial Instruments

The Company used the following methods and assumptions to estimate its fair value disclosures for financial instruments:

**Current assets and current liabilities** The carrying amounts reported in the accompanying Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

**Preferred stock with mandatory redemption requirements and long-term debt** The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. As a majority of the Company's debts do not trade in active markets, the Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company's own publicly-traded debt securities and the current market rates for U.S. Utility A- (BBB+ at December 31, 2012) debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities including call features, coupon tax treatment and collateral for the Level 3 instruments.

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The carrying amounts (including fair value adjustments previously recognized in acquisition purchase accounting) and fair values of the financial instruments are as follows:

Recurring Fair Value Measures	Carrying Amount	At Fair Value as of September 30, 2013			
		Level 1	Level 2	Level 3	Total
Preferred stocks with mandatory redemption requirements	\$ 19,285	\$ 0	\$ 0	\$ 23,528	\$ 23,528
Long-term debt (excluding capital lease obligations)	5,285,170	2,304,269	1,577,626	2,046,967	5,928,862

Recurring Fair Value Measures	Carrying Amount	At Fair Value as of December 31, 2012			
		Level 1	Level 2	Level 3	Total
Preferred stocks with mandatory redemption requirements	\$ 20,511	\$ 0	\$ 0	\$ 27,263	\$ 27,263
Long-term debt (excluding capital lease obligations)	5,303,729	2,400,847	1,677,776	2,252,272	6,330,895

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of September 30, 2013 and December 31, 2012, respectively:

Recurring Fair Value Measures	At Fair Value as of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	\$ 26,183	\$ 0	\$ 0	\$ 26,183
Rabbi trust investments	0	696	0	696
Deposits	6,899	0	0	6,899
Mark-to-market derivative asset	0	5,240	0	5,240
Total assets	33,082	5,936	0	39,018
Liabilities:				
Deferred compensation obligation	0	10,932	0	10,932
Total liabilities	0	10,932	0	10,932
Total net assets (liabilities)	\$ 33,082	\$ (4,996)	\$ 0	\$ 28,086

Recurring Fair Value Measures	At Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Restricted funds	\$ 40,547	\$ 0	\$ 0	\$ 40,547
Rabbi trust investments	0	481	0	481
Deposits	2,103	0	0	2,103
Mark-to-market derivative asset	0	7,909	0	7,909
<b>Total assets</b>	<b>42,650</b>	<b>8,390</b>	<b>0</b>	<b>51,040</b>
<b>Liabilities:</b>				
Deferred compensation obligation	0	10,237	0	10,237
<b>Total liabilities</b>	<b>0</b>	<b>10,237</b>	<b>0</b>	<b>10,237</b>
<b>Total net assets (liabilities)</b>	<b>\$ 42,650</b>	<b>\$ (1,847)</b>	<b>\$ 0</b>	<b>\$ 40,803</b>

**Restricted funds** The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations and maintenance projects. The proceeds of these financings are held in escrow until the designated expenditures are incurred. Restricted funds expected to be released within twelve months subsequent to the balance sheet date are classified as current.

**Rabbi trust investments** The Company's rabbi trust investments consist primarily of fixed income investments from which supplemental executive retirement plan benefits are paid. The Company includes these assets in other long-term assets.

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**Deposits** Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets.

**Deferred compensation obligations** The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities. The value of the Company's deferred compensation obligations is based on the market value of the participants notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

**Mark-to-market derivative asset** The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Note 14: Segment Information

The Company has two operating segments that are also the Company's two reportable segments, referred to as Regulated Businesses and Market-Based Operations. The following table includes the Company's summarized segment information:

	As of or for the Three Months Ended September 30, 2013			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	\$ 743,091	\$ 90,564	\$ (4,459)	\$ 829,196
Depreciation and amortization	94,619	1,721	6,394	102,734
Total operating expenses, net	442,231	69,254	(6,164)	505,321
Income (loss) from continuing operations before income taxes	240,977	22,166	(14,151)	248,992
Total assets	13,193,423	279,336	1,755,687	15,228,446
Capital expenditures	233,756	1,676	0	235,432

	As of or for the Three Months Ended September 30, 2012			
	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	\$ 750,742	\$ 85,878	\$ (4,805)	\$ 831,815
Depreciation and amortization	89,202	1,673	5,344	96,219
Total operating expenses, net	438,933	72,110	(6,868)	504,175
Income (loss) from continuing operations before income taxes	254,003	14,560	(13,539)	255,024

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Total assets	12,586,885	269,408	1,743,242	14,599,535
Capital expenditures	200,376	3,681	0	204,057
Capital expenditures of discontinued operations (included in above)	0	0	0	0

As of or for the Nine Months Ended  
September 30, 2013

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	\$ 1,964,225	\$ 238,655	\$ (13,282)	\$ 2,189,598
Depreciation and amortization	279,949	5,233	18,567	303,749
Total operating expenses, net	1,277,264	198,956	(16,617)	1,459,603
Income (loss) from continuing operations before income taxes	509,765	42,044	(46,287)	505,522
Total assets	13,193,423	279,336	1,755,687	15,228,446
Capital expenditures	661,112	4,150	0	665,262

As of or for the Nine Months Ended  
September 30, 2012

	Regulated Businesses	Market-Based Operations	Other	Consolidated
Net operating revenues	\$ 1,960,218	\$ 249,254	\$ (13,496)	\$ 2,195,976
Depreciation and amortization	258,692	5,003	16,957	280,652
Total operating expenses, net	1,239,992	216,837	(18,863)	1,437,966
Income (loss) from continuing operations before income taxes	549,293	34,715	(47,074)	536,934
Total assets	12,586,885	269,408	1,743,242	14,599,535
Capital expenditures	676,433	3,924	0	680,357
Capital expenditures of discontinued operations (included in above)	2,884	0	0	2,884

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FORWARD-LOOKING STATEMENTS

Certain matters within this Quarterly Report on Form 10-Q include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as may, should, will, could, estimates, predicts, potential, continue, anticipates, believes, plans, expects, future expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the Risk Factors section or other sections in the Company's Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission ( SEC ), as well as in Item IA of Part II of this Quarterly Report. We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

American Water Works Company, Inc. (herein referred to as American Water or the Company ) is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies ( PUCs ) in the states in which they operate. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by the PUCs. We report the results of these businesses in our Market-Based Operations segment. For further description of our businesses see the Business section found in our Form 10-K for the year ended December 31, 2012 and subsequent filings with the SEC.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Form 10-K for the year ended December 31, 2012 filed with the SEC.

Overview

All financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) reflects results from continuing operations. As previously disclosed in our Form 10-K for the year ended December 31, 2012, as part of our portfolio optimization initiative, we entered into agreements in 2011 to sell our regulated subsidiaries located in Arizona, New Mexico and Ohio. In the first quarter of 2012, we completed the divestiture of the Arizona and New Mexico subsidiaries, and on May 1, 2012, we completed the divestiture of our Ohio subsidiary. Therefore, the financial results of these entities have been presented as discontinued operations for all periods, unless otherwise noted.

Financial Results. For the three months ended September 30, 2013, we reported net income of \$150.7 million, or diluted earnings per share ( EPS ) of \$0.84, compared to \$153.8 million, or diluted EPS of \$0.86, for the comparable period in 2012. Income from continuing operations was \$150.7 million for the third quarter of 2013 compared to

\$154.1 million in the third quarter of 2012. Diluted income from continuing operations per average common share was \$0.84 for the third quarter of 2013 as compared to \$0.87 for the third quarter of 2012.

For the nine months ended September 30, 2013, our net income amounted to \$309.6 million, or diluted EPS of \$1.73 compared to \$302.6 million, or diluted EPS of \$1.70 for the comparable period in 2012. Income from continuing operations was \$309.6 million for the nine months ended September 30, 2013 compared to \$320.0 million for the same period in 2012. Diluted income from continuing operations per average common share was \$1.73 for the nine months ended September 30, 2013 as compared to \$1.80 for the first nine months of 2012.

The primary factors contributing to the decrease in income from continuing operations for the three months ended September 30, 2013 compared to the same period in 2012 were higher depreciation expense, due to additional utility plant placed in service, an increase in general taxes and lower Regulated Businesses revenue, principally due to a reduction in water usage. The decrease for the nine months ended September 30, 2013 compared to the same period in 2012 was mainly due to higher depreciation expense and lower Regulated Business revenues due to a decrease in customer demand. Partially offsetting these decreases is an increase in our

Market -Based Operations operating income. For further details, see Consolidated Results of Operations and Variances and Segment Results below.

For 2013, our goals include actively addressing regulatory lag that impacts return on our investments and promoting constructive regulatory frameworks, continuing to improve our regulated operation and maintenance ( O&M ) efficiency ratio, making efficient use of our capital and expanding both our Regulated Businesses segment through focused acquisitions and/or organic growth and our Market-Based Operations segment through core growth, expanding markets and new offerings.

Also, during 2013, we expected to file up to four general rate cases as well as file for infrastructure surcharges. We decided to file three general rate cases this year. Additionally, we have sought appropriate pass-through mechanisms for certain costs and forward-looking adjustments or mechanisms, including those that recognize declining usage.

The progress that we have made in the first nine months of 2013 with respect to these objectives is described below.

Addressing Regulatory Lag. During the three months ended September 30, 2013, a number of rate related regulatory activities occurred. On July 1, 2013, additional annualized revenue of \$3.7 million and \$4.0 million resulting from infrastructure charges in our Pennsylvania and New Jersey subsidiaries, respectively, became effective. Also on July 1, 2013, we filed an update to our May 1, 2013 application in California requesting \$33.5 million of additional annualized revenues which includes increases in 2016 and 2017 of \$8.3 million and \$6.7 million, respectively. On October 9, 2013, California American Water Company filed an update to the final general rate case application adjusting the request to \$32.4 million of additional annualized revenues which includes a test year 2015 revenue requirement of \$18.1 million. It also includes increases in the escalation year 2016 and the attrition year 2017 of \$8.0 million and \$6.3 million, respectively.

On July 9, 2013, our West Virginia subsidiary entered into a joint stipulation for its water and wastewater general rate case that was filed on December 14, 2012. On September 26, 2013, a final order, consistent with the stipulation agreement which provides for additional annualized revenue of \$8.5 million, was issued by the West Virginia Public Service Commission, effective October 11, 2013.

On July 27, 2013, interim rates which would provide for an additional \$12.3 million of annualized revenue were put into effect, subject to refund, for our Kentucky subsidiary. Under Kentucky statute, interim rates can be put into effect at either 0% or 100% of the rate requested amount. As such, we put into effect interim rates that reflected the full increase requested as allowed by the state regulations. We recognized a reserve for the difference between the interim rates put into effect and the amount we estimated to be realizable in the final order. On October 25, 2013, a final order was received which approved annualized revenue of \$6.9 million. This increase approximates the interim rates, net of the reserve that we have been recording since July 27, 2013. Our Kentucky subsidiary will, within 60 days of the date of the order, refund to customers monies that are in excess of the final authorized rates with interest on all amounts collected from July 27, 2013 through October 25, 2013.

On August 30, 2013, our Missouri subsidiary filed for an infrastructure surcharge amounting to \$2.4 million in additional annualized revenue. The surcharge is expected to be approved and would become effective in the fourth quarter of 2013.

Lastly, on September 16, 2013, our Pennsylvania subsidiary reached a settlement in principle for its general rate case filed on April 30, 2013, with the PUC staff, Office of Consumer Advocate and the Office of Small Business Advocate. The settlement agreement, if approved, would provide \$26.0 million in additional annualized base rate revenue effective January 1, 2014. The agreement is pending approval by the administrative law judges and the Public Utility Commissions before it is final.



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The table below provides further details of annualized revenues, assuming a constant volume, resulting from rate authorizations granted:

	Annualized Rate Increases Granted	
	For the three months ended September 30, 2013	For the nine months ended September 30, 2013 (In millions)
State		
General Rate Cases		
New York (a)	\$	\$ 1.4
California (b)		3.5
Pennsylvania (c)		2.6
West Virginia	8.5	8.5
Other		0.1
Total General Rate cases	\$ 8.5	\$ 16.1
Infrastructure charges		
Pennsylvania	\$ 3.7	\$ 13.1
New Jersey	4.0	4.0
Missouri		5.4
Total Infrastructure charges	\$ 7.7	\$ 22.5

(a) Second step increase from the 2012 rate case became effective on April 1, 2013. Final step increase of \$1.2 million will be effective on April 1, 2014.

(b) The escalation year increase of \$3.5 million became effective on January 1, 2013. The attrition year increase will be effective January 1, 2014.

(c) Final step increase related to the 2010 Pennsylvania wastewater rate case amounting to \$2.6 million that became effective January 1, 2013.

On October 1, 2013, additional annualized revenue of \$6.7 million and \$0.5 million resulting from infrastructure filings in our Pennsylvania and Illinois subsidiaries, respectively, became effective. In October 2013, our Indiana subsidiary submitted an infrastructure charge filing to increase revenue by an additional \$4.4 million on an annualized basis.

On October 4, 2013, our Tennessee subsidiary filed four alternative rate mechanisms, requesting to increase revenues on an annualized basis by \$0.5 million. These mechanisms consist of infrastructure surcharges for certain capital investments and an expense tracker for purchased power, chemicals, purchased water, waste disposal and Tennessee Regulatory Authority inspection fees. These alternative rate mechanisms were filed in compliance with Tennessee House Bill 191 that was signed into law in April 2013.

As of November 1, 2013, we are awaiting final orders in three states in response to our requests for additional annualized revenues of \$97.4 million. There is no assurance that all, or any portion, of these requested increases will be granted.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses. Our O&M efficiency ratio (a non-GAAP measure) is calculated on our Regulated Businesses' operations and is defined as operation and maintenance expense divided by operating revenues where both operation and maintenance expense ( O&M ) and operating revenues are adjusted to eliminate the impact of purchased water. We also exclude the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, which are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other line items in the Statement of Operations. Our operating efficiency ratio was 35.3% for the three months ended September 30, 2013, compared to 35.8% for the three months ended September 30, 2012. Our operating efficiency ratio was 38.5% for the nine months ended September 30, 2013 compared to 38.2% for the same period in 2012. The changes in our 2013 O&M efficiency ratio for the three months ended September 30, 2013 was primarily attributable to the changes in our Regulated Businesses' revenues as well as the Regulated O&M expenses compared to the same period in 2012. For the nine months September 30, 2013, the change was primarily attributable to the change in our Regulated Businesses' O&M expenses compared to the same period in 2012.

We evaluate our operating performance using this measure because management believes it is a direct measure of the efficiency of our Regulated operations. This information is intended to enhance an investor's overall understanding of our operating performance. The O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies' operating measures and should not be used in place of the GAAP information provided elsewhere in this report. The following table provides a reconciliation that compares operation and maintenance expense and operating revenues, as determined in accordance with GAAP, to those amounts utilized in the calculation of our O&M efficiency ratio for the three and nine months ended September 30, 2013 as compared to the same period in 2012:

## Regulated O&amp;M Efficiency Ratio (a Non-GAAP Measure)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Total O&M expense	\$ 343,610	\$ 355,126	\$ 979,133	\$ 992,707
Less:				
O&M expense Market-Based Operations	65,618	69,335	188,964	208,207
O&M expense Other	(14,618)	(13,960)	(43,674)	(43,213)
Total Regulated O&M expense	292,610	299,751	833,843	827,713
Less:				
Regulated purchased water expense	33,956	34,475	84,759	84,482
Allocation of internal non-O&M costs	7,988	8,711	26,132	26,165
Adjusted Regulated O&M expense (a)	\$ 250,666	\$ 256,565	\$ 722,952	\$ 717,066
Total Operating Revenues	\$ 829,196	\$ 831,815	\$ 2,189,598	\$ 2,195,976
Less:				
Operating revenues Market-Based Operations	90,564	85,878	238,655	249,254
Operating revenues Other	(4,459)	(4,805)	(13,282)	(13,496)
Total Regulated operating revenues	743,091	750,742	1,964,225	1,960,218
Less: Regulated purchased water expense*	33,956	34,475	84,759	84,482
Adjusted Regulated operating revenues (b)	\$ 709,135	\$ 716,267	\$ 1,879,466	\$ 1,875,736
Regulated O&M efficiency ratio (a)/(b)	35.3%	35.8%	38.5%	38.2%

\* Calculation assumes purchased water revenues are equal to purchased water expenses

**Making Efficient Use of Capital.** We invested approximately \$665.3 million in Company-funded capital improvements during the nine months ended September 30, 2013.

During the second quarter of 2013, we implemented the first wave of Phase II of our business transformation project in certain of our regulated subsidiaries. Phase II consists of the roll-out of a new Enterprise Asset Management system, which manages an asset's lifecycle, and a Customer Information system, which contains all billing and payment data pertaining to our Regulated Businesses segment customers. In October 2013, we implemented Phase II in our other regulated subsidiaries. Through September 30, 2013, we have spent \$308.6 million on our business transformation project, including allowance for funds used during construction (AFUDC), with \$51.5 million spent in 2013. Expenditures in 2013 associated with this project are included in our estimated capital expenditures of \$950 million for 2013.

**Expanding Markets and Developing New Offerings.** During the nine months ended September 30, 2013, our Regulated Businesses completed the purchase of eight water systems and four wastewater systems. These acquisitions added approximately 6,500 customers to our regulated operations. Also, during the first nine months of 2013, our Homeowner Services Group (HOS) expanded its water and sewer line protection programs into nine additional states and Washington, D.C.

On May 2, 2013, we signed an agreement to purchase the stock of a wastewater utility company in Virginia for \$12.0 million in cash plus the assumption of approximately \$13.8 million in long-term debt. On October 30, 2013, the sale was approved by the Virginia State Corporation Commission. This acquisition will add approximately 20,000 wastewater customers to our Virginia regulated operations.

Other Matters

Debt Retirement through Tender Offer. On September 10, 2013, we announced through American Water Capital Corp. ( AWCC ), our financing subsidiary, a cash tender offer for our 6.085% Senior Notes due 2017 (the Notes ). On October 8, 2013, we announced the expiration and final results of this tender offer and agreed to repurchase \$225.8 million in aggregate outstanding principal amount of the Notes that had been validly tendered and not validly withdrawn. On October 8, 2013, we paid \$271.8 million to effect the tender, which in addition to the principal included a repurchase premium of \$39.4 million and accrued interest of \$6.6 million. In October 2013, we recorded a loss on debt extinguishment of \$40.6 million, which included the repurchase premium, transaction fees of \$0.7 million and a write-off of \$0.5 million for unamortized debt issuance costs.

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Consolidated Results of Operations and Variances

	For the three months ended September 30,			For the nine months ended September 30,		
	(In thousands, except per share data)					
	2013	2012	Favorable (Unfavorable) Change	2013	2012	Favorable (Unfavorable) Change
Operating revenues	\$ 829,196	\$ 831,815	\$ (2,619)	\$ 2,189,598	\$ 2,195,976	\$ (6,378)
Operating expenses						
Operation and maintenance	343,610	355,126	11,516	979,133	992,707	13,574
Depreciation and amortization	102,734	96,219	(6,515)	303,749	280,652	(23,097)
General taxes	58,209	52,861	(5,348)	176,161	165,264	(10,897)
(Gain) loss on asset dispositions and purchases	768	(31)	(799)	560	(657)	(1,217)
Total operating expenses, net	505,321	504,175	(1,146)	1,459,603	1,437,966	(21,637)
Operating income	323,875	327,640	(3,765)	729,995	758,010	(28,015)
Other income (expenses)						
Interest, net	(77,389)	(76,616)	(773)	(233,260)	(236,000)	2,740
Allowance for other funds used during construction	2,800	3,735	(935)	9,895	13,173	(3,278)
Allowance for borrowed funds used during construction	1,679	1,548	131	5,102	5,942	(840)
Amortization of debt expense	(1,524)	(1,322)	(202)	(4,729)	(3,949)	(780)
Other, net	(449)	39	(488)	(1,481)	(242)	(1,239)
Total other income (expenses)	(74,883)	(72,616)	(2,267)	(224,473)	(221,076)	(3,397)
Income from continuing operation before income taxes	248,992	255,024	(6,032)	505,522	536,934	(31,412)
Provision for income taxes	98,327	100,913	2,586	195,951	216,908	20,957
Income from continuing operations	150,665	154,111	(3,446)	309,571	320,026	(10,455)
Loss from discontinued operations, net of tax	0	(299)	299	0	(17,434)	17,434
Net income	\$ 150,665	\$ 153,812	\$ (3,147)	\$ 309,571	\$ 302,592	\$ 6,979

Basic earnings per common share: (a)				
Income from				
continuing operations	\$ 0.85	\$ 0.87	\$ 1.74	\$ 1.81
Loss from discontinued				
operations, net of tax	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.10)
Net income	\$ 0.85	\$ 0.87	\$ 1.74	\$ 1.72
Diluted earnings per common share: (a)				
Income from				
continuing operations	\$ 0.84	\$ 0.87	\$ 1.73	\$ 1.80
Loss from discontinued				
operations, net of tax	\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.10)
Net income	\$ 0.84	\$ 0.86	\$ 1.73	\$ 1.70
Average common shares outstanding during the period:				
Basic	177,965	176,621	177,671	176,290
Diluted	179,154	177,841	178,906	177,486

(a) Amounts may not sum due to rounding

The following is a discussion of the consolidated results of operations for the three and nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012:

#### Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating revenues. Consolidated operating revenues for the three months ended September 30, 2013 decreased \$2.6 million, or 0.3%, compared to the same period in 2012. The variance is mainly attributable to a \$7.7 million decrease in our Regulated Businesses segment mainly as a result of a decrease in demand in 2013 compared to 2012, offset by a \$4.7 million increase in our Market-Based Operations segment primarily due to contract growth in Homeowner Services slightly offset by a decrease in our Contract Operations Group due to the termination of certain municipal and industrial operations and maintenance contracts in 2012. For further information, see the respective Operating Revenues discussions within the Segment Results.

Operation and maintenance. Consolidated operation and maintenance ( O&M ) expense for the three months ended September 30, 2013 decreased by \$11.5 million, or 3.2%, compared to the same period in 2012. The variance is primarily due to lower O&M costs in our Regulated Businesses segment of \$7.1 million, mainly due to a reduction in employee related costs, and in our Market-Based segment of \$3.7 million primarily as a result of a \$3.8 million release of loss contract reserves for certain contracts due to the resolution of certain outstanding issues and uncertainties. For further discussions on the changes in our Regulated and Market-Based segments O&M, see the respective Operation and Maintenance discussions within the Segment Results.

Depreciation and amortization. Depreciation and amortization expense increased by \$6.5 million, or 6.8%, for the three months ended September 30, 2013 compared to the same period in the prior year principally as a result of additional utility plant placed in service, including Phase I and the first wave of Phase II of our business transformation project that went into service during the third quarter of 2012 and the second quarter of 2013, respectively. The remainder of Phase II assets went into service in October 2013.

General taxes. General tax expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by \$5.3 million, or 10.1%, for the three months ended September 30, 2013, compared to the same period in 2012. This increase was primarily due to an increase in property taxes of \$4.3 million in 2013 primarily as a result of the inclusion in 2012 of credit adjustments to our Indiana and Missouri property taxes.

Other income (expenses). Other expenses increased by \$2.3 million, or 3.1%, for the three months ended September 30, 2013 compared to the same period in the prior year. The change is primarily due to an increase in interest expense mainly due to increased commercial paper outstanding during the third quarter of 2013 compared to 2012, and a reduction in AFUDC, attributable to decreased construction activities, most of which is related to the winding down of our business transformation project in the third quarter of 2013 compared to the same period in 2012.

Provision for income taxes. Our consolidated provision for income taxes decreased \$2.6 million, or 2.6%, to \$98.3 million for the three months ended September 30, 2013. The effective tax rates for the three months ended September 30, 2013 and 2012 were 39.5% and 39.6%, respectively.

#### Nine Months Ended September 30, 2013 Compared To Nine Months Ended September 30, 2012

Operating revenues. Consolidated operating revenues for the nine months ended September 30, 2013 decreased \$6.4 million, or 0.3%, compared to the same period in 2012. The variance is mainly attributable to a \$10.6 million decrease in our Market-Based Operations segment related to a decline in our Contract Operations Group revenues mainly as a result of the termination of certain municipal and industrial operations and maintenance contracts in 2012, partially offset by a \$4.0 million increase in our Regulated Businesses segment mainly as a result of rate increases and incremental revenues due to acquisitions, which were partially offset by reduced consumption in 2013 compared to 2012. For further information, see the respective Operating Revenues discussions within the Segment Results.

Operation and maintenance. Consolidated O&M expense for the nine months ended September 30, 2013 decreased by \$13.6 million, or 1.4%, compared to the same period in 2012. These decreased costs are mainly attributed to our Market-Based Operations segment due to the termination of certain municipal and industrial operations and maintenance contracts in 2012 and the release of the loss contracts reserve in third quarter of 2013. Partially offsetting this decrease is higher Regulated Businesses O&M expenses of \$6.1 million and increased compensation-related expenses recorded in the second quarter of 2013 associated with the change in our Chief Financial Officer. For more information on the Regulated Businesses and Market-Based Operations variances, see the respective Operation and Maintenance discussions within the Segment Results.

Depreciation and amortization. Depreciation and amortization expense increased by \$23.1 million, or 8.2%, for the nine months ended September 30, 2013 compared to the same period in the prior year mainly as a result of additional

utility plant placed in service, including Phase I and the first wave of Phase II of our business transformation project.

General Taxes. General tax expense increased by \$10.9 million, or 6.6%, for the nine months ended September 30, 2013 compared to the same period in the prior year, principally due to higher property taxes and gross receipts taxes. Property taxes increased as a result of the incremental taxes in the first half of 2013 associated with the properties acquired in our New York acquisition in the second quarter of 2012. Also, 2012 property taxes were lower due to the recognition of the Indiana and Missouri credit adjustments which reduced property tax expense in the third quarter of 2012. Lastly, gross receipts taxes were higher in our New Jersey subsidiary by \$2.6 million.

Other income (expenses). Other expenses increased by \$3.4 million, or 1.5%, for the nine months ended September 30, 2013 compared to the same period in the prior year. The change is principally due to a reduction in AFUDC of \$4.1 million attributable to decreased construction activities, compared to the same period in 2012, and to the winding down of our business transformation project which accounted for \$2.2 million of the variance. Also, adding to the increase was additional amortization of deferred debt financing costs associated with the new unsecured revolving credit facility that was entered into during the fourth quarter of 2012.

Partially offsetting this expense increase was a reduction in interest expense of \$2.7 million associated with a reduction in the outstanding debt in addition to lower interest rates obtained with our 2012 refinancing.

Provision for income taxes. Our consolidated provision for income taxes decreased \$21.0 million, or 9.7%, to \$196.0 million for the nine months ended September 30, 2013. The effective tax rates for the nine months ended September 30, 2013 and 2012 were 38.8% and 40.4%, respectively. The 2013 rate includes a \$3.3 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico and Ohio were classified as discontinued operations for the nine months ended September 30, 2012. For the nine months ended September 30, 2012, loss from discontinued operations, net of tax included the recognition of tax expense related to the difference between the tax basis and book basis of assets upon the sale of Arizona, New Mexico and Ohio that resulted in taxable gains, since an election was made under Section 338(h)(10) of the Internal Revenue Code to treat the stock sales as asset sales. The loss from discontinued operations, net of tax, also includes the loss on disposition of our Ohio subsidiary and a sales price adjustment in connection with the disposition of Arizona and New Mexico subsidiaries.

### Segment Results

We have two operating segments that are also our reportable segments: the Regulated Businesses and the Market-Based Operations. We evaluate the performance of our segments and allocate resources based on several factors, with the primary measure being income from continuing operations before income taxes. Certain amounts within 2012 operating revenues and operations and maintenance expense categories have been reclassified to conform to the 2013 presentation.

### Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the three months ended			For the nine months ended		
	September 30,			September 30,		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
	(In thousands)					
Operating revenues	\$ 743,091	\$ 750,742	\$ (7,651)	\$ 1,964,225	\$ 1,960,218	\$ 4,007
Operation and maintenance expense	292,610	299,751	(7,141)	833,843	827,713	6,130
Operating expenses, net	442,231	438,933	3,298	1,277,264	1,239,992	37,272
Income from continuing operations before income taxes	240,977	254,003	(13,026)	509,765	549,293	(39,528)

Operating revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is generally subject to PUC

regulation and our results of operations are impacted significantly by rates authorized by the PUCs in the states in which we operate.

Operating revenues decreased by \$7.7 million, or 1.0%, for the three months ended September 30, 2013, as compared to the same period in 2012. The decrease in revenues associated with lower demand amounted to approximately \$35.2 million and was primarily due to hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler weather conditions in 2013. This decrease was partially offset by revenue increases due to rate increases obtained through rate authorizations for a number of our operating companies of \$18.4 million and increased surcharge and amortization of balancing accounts of \$9.9 million. For the nine months ended September 30, 2013, operating revenues increased by \$4.0 million, or 0.2%, as compared to the same period in 2012. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our regulated subsidiaries, the impact of which was approximately \$55.7 million. Additional revenues of \$7.7 million are associated with acquisitions, the most significant being our New York acquisition in the second quarter of 2012, and increased surcharge and amortization of balancing accounts of \$15.9 million. These increases were partially offset by decreased revenues of approximately \$69.8 million as a result of lower demand, driven by the hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler and wetter weather conditions in 2013 and by a regulatory adjustment of \$3.4 million recorded in the prior year by our California subsidiary.

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The following table provides information regarding the Regulated Businesses' revenues and billed water sales volume by customer class:

Customer Class Water service	For the three months ended September 30,							
	2013				2012			
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Residential	\$ 426,020	57.3%	\$ 439,294	58.5%	55,678	52.5%	62,691	53.2%
Commercial	155,258	20.9%	156,609	20.9%	24,759	23.4%	26,931	22.8%
Industrial	34,509	4.6%	34,434	4.6%	10,081	9.5%	11,581	9.8%
Public and other	87,103	11.7%	90,214	12.0%	15,527	14.6%	16,698	14.2%
Other water revenues	7,178	1.0%	(1,155)	(0.2%)				
Total water revenues	\$ 710,068	95.5%	\$ 719,396	95.8%	106,045	100.0%	117,901	100.0%
Wastewater revenues	20,720	2.8%	19,673	2.6%				
Other revenues	12,303	1.7%	11,673	1.6%				
	\$ 743,091	100.0%	\$ 750,742	100.0%				

Customer Class Water service	For the nine months ended September 30,							
	2013				2012			
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Residential	\$ 1,115,295	56.8%	\$ 1,129,070	57.6%	136,356	51.5%	146,436	51.8%
Commercial	402,158	20.5%	394,198	20.1%	61,129	23.1%	64,401	22.8%
Industrial	93,547	4.7%	92,401	4.7%	27,235	10.3%	30,310	10.6%
Public and other	241,604	12.3%	241,062	12.3%	39,821	15.1%	41,777	14.8%
Other water revenues	16,186	0.8%	12,942	0.7%				
Total water revenues	\$ 1,868,790	95.1%	\$ 1,869,673	95.4%	264,541	100.0%	282,924	100.0%
Wastewater revenues	60,955	3.1%	58,463	3.0%				
Other revenues	34,480	1.8%	32,082	1.6%				
	\$ 1,964,225	100.0%	\$ 1,960,218	100.0%				

**Water Services** Water service operating revenues from residential customers for the three months ended September 30, 2013 totaled \$426.0 million, a \$13.3 million decrease, or 3.0%, over the same period of 2012. This reduction in revenue is primarily due to reduced consumption as a result of the weather abnormalities in our eastern and Midwestern operating states, with hot and dry conditions in these areas in 2012 and cooler weather conditions in the Northeast and Midwest portion of the country in 2013. For the nine months ended September 30, 2013, these revenues decreased by \$13.8 million, or 1.2%, compared to the nine months ended September 30, 2012. These decreases are also mainly due to a decrease in sales volume related to weather abnormalities in the Eastern and Midwestern operating states of hot and dry conditions in these areas in 2012 and cooler and wetter weather in the Northeast and Midwest portions of the country in 2013. Partially offsetting the decreases were revenue increases related to rate increases. The volume of water sold and billed to residential customers decreased by 11.2% for the three months ended September 30, 2013 to 55.7 billion gallons, from 62.7 billion gallons for the same period in 2012. For the nine months ended September 30, 2013, the volume sold and billed to these customers decreased by 6.9% as compared to the same period in 2012. We believe that the majority of these decreases for both the three and nine months ended September 30, 2013 was due to the weather abnormalities in 2012 and 2013.

Water service operating revenues from commercial water customers for the three months ended September 30, 2013 decreased by \$1.4 million, or 0.9%, to \$155.3 million, compared to the same period in 2012. This decrease is mainly due to a decrease in sales volume offset by rate increases. For nine months ended September 30, 2013, these revenues increased by \$8.0 million, or 2.0%, to \$402.2 million, compared to September 30, 2012. This increase is primarily due to rate increases and a billing adjustment for a certain customer in our New Jersey service area which is partially offset by decreased sales volume. The volume of water sold and billed to commercial customers decreased by 2.2 billion gallons, or 8.1%, for the three months ended September 30, 2013 and 3.3 billion gallons, or 5.1% for the nine months ended September 30, 2013, compared to the same periods in 2012. These decreases are mainly attributable to weather abnormalities in 2012 and 2013 as well as the implementation of our new CIS system in certain of our regulated operating subsidiaries. With the implementation, we made a conscious decision to increase the level of scrutiny and

verification around bills being generated by the new system, in particular larger and/or more complex bills. As such, for those regulated subsidiaries that implemented CIS in the second quarter of 2013, the timing of billed sales volumes in 2013 caused a decrease in these volumes when compared to 2012 and with a corresponding increase unbilled usage.

Water service operating revenues from industrial customers totaled \$34.5 million for the three months ended September 30, 2013, an increase of \$0.1 million, or 0.2%, from those recorded in the same period in 2012. For the nine months ended September 30, 2013, water service operating revenues from industrial customers increased \$1.1 million, or 1.2%, to \$93.5 million, compared to the same period of 2012. These increases are mainly due to rate increases offset by decreases in sales volumes. The volume of water sold and billed to industrial customers totaled 10.1 billion gallons for the three months ended September 30, 2013, a decrease of 13.0% from 11.6 billion gallons for the three months ended September 30, 2012. The volume of water sold and billed to industrial customers for the nine months ended September 30, 2013 decreased 10.1% compared to the nine months ended September 30, 2012. We attribute this decrease in billed usage to the implementation of our new CIS system and the associated timing of billings in 2013 compared to the same periods in 2012. Consistent with the above, while billed sales volumes decreased, there was a corresponding increase in unbilled usage.

Water service operating revenues from public and other customers, including municipal governments, other governmental entities and resale customers, decreased \$3.1 million, or 3.4%, for the three months ended September 30, 2013 mainly due to decreased consumption. For the nine months ended September 30, 2013, these revenues increased \$0.5 million due to rate increases partially offset by a decrease in consumption. We believe the decrease in billed sale volumes for both the three and nine months ended September 30, 2013 is due to the weather abnormalities in 2012 and 2013 as well as the change in timing of billings as a result of the implementation of our new CIS system for certain of our regulated subsidiaries in May 2013.

Other water revenues for the three months ended September 30, 2013 totaled \$7.2 million, an increase of \$8.3 million. For the nine months ended September 30, 2013, these revenues increased by \$3.2 million, or 25.1%, to \$16.2 million. These increases are primarily related to increases in the water revenue adjustment mechanisms in our California and New York subsidiaries.

**Wastewater services** Our subsidiaries provide wastewater services in nine states. Revenues from these services increased \$1.0 million, or 5.3%, and \$2.5 million, or 4.3%, for the three and nine months ended September 30, 2013, compared to the same periods in 2012. These increases are primarily attributable to rate increases in our Pennsylvania subsidiary.

**Other revenues** Other revenues, which include such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased \$0.6 million, or 5.4%, and \$2.4 million, or 7.5%, for the three and nine months ended September 30, 2013, respectively. The increases are primarily due to the additional surcharge revenues partially offset by decreases in revenues related to billings for others, reconnection and late fees. Additionally, the nine months ended September 30, 2012 included insurance proceeds for the business interruption of our Joplin, Missouri service area affected by the tornado in 2011.

**Operation and maintenance.** Operation and maintenance expense decreased \$7.1 million, or 2.4%, and increased \$6.1 million, or 0.7%, for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012. Included in the nine month increase was incremental costs of \$4.6 million in 2013 associated with our New York acquisition, as the acquisition did not occur until May 1, 2012.

The following table provides information regarding operation and maintenance expense for the three and nine months ended September 30, 2013 and 2012, by major expense category:

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	For the three months ended September 30,				For the nine months ended September 30,			
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs \$	82,093	\$ 84,052	\$ (1,959)	(2.3%)	\$ 207,698	\$ 209,939	\$ (2,241)	(1.1%)
Employee-related costs	114,127	118,456	(4,329)	(3.7%)	342,611	351,464	(8,853)	(2.5%)
Operating supplies and services	54,215	55,619	(1,404)	(2.5%)	163,998	150,488	13,510	9.0%
Maintenance materials and supplies	15,357	18,232	(2,875)	(15.8%)	47,733	50,288	(2,555)	(5.1%)
Customer billing and accounting	16,193	13,807	2,386	17.3%	38,380	33,214	5,166	15.6%
Other	10,625	9,585	1,040	10.9%	33,423	32,320	1,103	3.4%
Total	\$ 292,610	\$ 299,751	\$ (7,141)	(2.4%)	\$ 833,843	\$ 827,713	\$ 6,130	0.7%

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For the three and nine months ended September 30, 2013, production costs and employee-related costs together accounted for approximately 67% and 66%, respectively, of the total Regulated Businesses operation and maintenance expense, compared to 68% for both of these periods in 2012. These items are discussed in more detail below.

Production costs by major expense type were as follows:

	For the three months ended September 30,				For the nine months ended September 30,			
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Purchased								
Water	\$ 33,956	\$ 34,475	\$ (519)	(1.5%)	\$ 84,759	\$ 84,482	\$ 277	0.3%
Fuel and								
Power	25,990	27,234	(1,244)	(4.6%)	66,227	68,342	(2,115)	(3.1%)
Chemicals	15,063	15,810	(747)	(4.7%)	36,997	37,840	(843)	(2.2%)
Waste								
Disposal	7,084	6,533	551	8.4%	19,715	19,275	440	2.3%
Total	\$ 82,093	\$ 84,052	\$ (1,959)	(2.3%)	\$ 207,698	\$ 209,939	\$ (2,241)	(1.1%)

Overall, production costs decreased for both the three and nine months ended September 30, 2013, compared to the same periods in the prior year, as a result of lower production and sales.

Employee-related costs, including salaries and wages, group insurance, and pension expense, decreased \$4.3 million, or 3.7%, for the three months ended September 30, 2013, compared to the same period in the prior year. These employee-related costs represent approximately 39.0% and 39.5% of operation and maintenance expense for the three months ended September 30, 2013 and 2012, respectively. These costs also decreased \$8.9 million or 2.5%, for the nine months ended September 30, 2013, compared to the same period in the prior year. These employee-related costs represent approximately 41.1% and 42.5%, of operation and maintenance expense for the nine months ended September 30, 2013 and 2012, respectively.

The following table provides information with respect to components of employee-related costs for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30,				For the nine months ended September 30,			
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Salaries								
and								
wages	\$ 81,211	\$ 81,781	\$ (570)	(0.7%)	\$ 241,617	\$ 242,699	\$ (1,082)	(0.4%)
Pensions	11,976	14,530	(2,554)	(17.6%)	36,604	42,353	(5,749)	(13.6%)
Group								
insurance	16,636	17,938	(1,302)	(7.3%)	50,283	53,369	(3,086)	(5.8%)

Other								
benefits	4,304	4,207	97	2.3%	14,107	13,043	1,064	8.2%
Total	\$ 114,127	\$ 118,456	\$ (4,329)	(3.7%)	\$ 342,611	\$ 351,464	\$ (8,853)	(2.5%)

The overall decrease in employee-related costs for the three and nine months ended September 30, 2013, compared to the same periods in 2012, was primarily due to decreased pension expense. The decrease in pension expense for the three and nine months ended September 30, 2013 was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Also, adding to the decrease for both the three and nine months ended September 30, 2013 is lower group insurance costs which was mainly attributable to higher capitalization rates and reduced headcount.

Operating supplies and services include the day-to-day expenses of office operation, legal and other professional services, transportation expenses, information systems rental charges and other office equipment rental charges. These costs decreased \$1.4 million, or 2.5%, and increased \$13.5 million, or 9.0%, for the three and nine months ended September 30, 2013, respectively. The overall increase for the nine months ended September 30, 2013 was primarily due to higher contracted services costs, mainly as a result of backfilling positions and additional incremental costs attributable to the continued maturity of our Enterprise Resource Planning system in conjunction with the implementation of Phase I and Phase II of our business transformation project.

Maintenance materials and supplies, which include emergency repairs as well as costs for preventive maintenance, decreased \$2.9 million, or 15.8%, and \$2.6 million, or 5.1% for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012 mainly due to a reduction in tank painting costs in 2013 in our New Jersey subsidiary of \$2.1 million.

Customer billing and accounting expenses, which include uncollectible accounts expense, postage and other customer related expenses, increased \$2.4 million, or 17.3%, and \$5.2 million, or 15.6%, for the three and nine months ended September 30, 2013, respectively, compared to the same periods in the prior year, primarily due to an increase in uncollectible expense associated with an

increase in our Regulated Businesses customer accounts receivable attributable to rate increases and an increase in the overall aging of receivables, some which is the result of our CIS implementation.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. For the three and nine months ended September 30, 2013, the cost increases were primarily driven by higher casualty insurance costs, as a result of historical claims experience, and retroactive adjustments.

Operating expenses. The increase in operating expenses, for the three months ended September 30, 2013, is due to the decrease in operation and maintenance expense explained above offset by a higher depreciation and amortization expense of \$5.4 million and higher general tax expense of \$5.0 million. The increase in operating expenses for the nine months ended September 30, 2013 is due to the increases in operation and maintenance expense explained above, higher depreciation and amortization expense of \$21.3 million and higher general tax expense of \$9.8 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including Phase I and the first wave of Phase II of our business transformation project. The increases in general tax expense is primarily due to higher property taxes incurred partially as a result of our New York acquisition in the second quarter of 2012 of \$3.3 million, property tax true-ups included in 2012 for our Indiana and Missouri subsidiaries of \$4.0 million and higher 2013 gross receipts taxes in our New Jersey subsidiary of \$2.6 million.

### Market-Based Operations

The following table provides financial information for our Market-Based Operations segment for the periods indicated:

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
	(In thousands)					
Operating revenues	\$ 90,564	\$ 85,878	\$ 4,686	\$ 238,655	\$ 249,254	\$ (10,599)
Operation and maintenance expense	65,618	69,335	(3,717)	188,964	208,207	(19,243)
Operating expenses, net	69,254	72,110	(2,856)	198,956	216,837	(17,881)
Income from continuing operations before income taxes	22,166	14,560	7,606	42,044	34,715	7,329

Operating revenues. Revenues for the three months ended September 30, 2013 increased \$4.7 million, compared to the same period in 2012, due to an increase in our HOS revenues of \$5.4 million due to contract growth. This increase is offset by a \$0.9 million decrease in our Contract Operations Group due to terminated municipal and industrial operations and maintenance contracts totaling approximately \$2.4 million offset by the net increase of \$1.7 million from price redeterminations from our military contracts.

For the nine months ended September 30, 2013, when compared to the same period of the prior year, revenues decreased \$10.6 million, predominantly related to the termination of certain municipal and industrial operations and maintenance contracts, which amount to approximately \$14.9 million. Additionally, revenues from capital project activities associated with military construction decreased \$10.4 million, due to lower levels of work as compared to the prior year. These decreases were offset by a net increase of \$4.0 million from price redeterminations for several of

our military contracts as well as an increase of \$11.4 million in our HOS revenues associated with contract growth, most notably in New York City.

Operation and maintenance. Operation and maintenance expense decreased \$3.7 million, or 5.4%, and \$19.2 million, or 9.2%, for the three and nine months ended September 30, 2013, respectively.

The following table provides information regarding categories of operation and maintenance expense for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30,				For the nine months ended September 30,			
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)							
Production costs	\$ 8,864	\$ 9,858	\$ (994)	(10.1%)	\$ 28,449	\$ 33,376	\$ (4,927)	(14.8%)
Employee-related costs	16,355	17,162	(807)	(4.7%)	48,862	53,644	(4,782)	(8.9%)
Operating supplies and services	29,239	31,374	(2,135)	(6.8%)	77,735	87,462	(9,727)	(11.1%)
Maintenance materials and supplies	9,942	8,423	1,519	18.0%	30,740	27,257	3,483	12.8%
Other	1,218	2,518	(1,300)	(51.6%)	3,178	6,468	(3,290)	(50.9%)
Total	\$ 65,618	\$ 69,335	\$ (3,717)	(5.4%)	\$ 188,964	\$ 208,207	\$ (19,243)	(9.2%)

As noted in the table above, decreases in operating supplies and services, production costs and employee-related costs were partially offset by an increase in maintenance materials and supplies. The decrease in production costs and employee-related costs is mostly due to the termination of certain municipal and industrial operations and maintenance contracts. The decrease in operating supplies and services for both the three and nine month periods is attributable to the release of \$3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Additionally, the nine month period was also impacted by decreased construction activity for our military contracts and is partially offset by increased HOS contracted services expense as well as higher printing and postage costs associated with expanding into new markets, including New York City. The increase in maintenance materials and services is primarily due to higher HOS repair costs, which is attributable to new contracts, an increase in the number of claims, as well as an increase in the average cost per claim and is partially offset by the terminated municipal and industrial operations and maintenance contracts. The decrease in the other category is mainly due to decreases in uncollectible accounts expense of \$1.3 million and \$2.9 million for the three and nine months ended September 30, 2013, respectively. These decreases are due to improved collection experience for certain municipal and industrial operations and maintenance contracts.

Operating expense. The changes in operating expenses for the three and nine months ended September 30, 2013, compared to the same periods in 2012, are primarily due to the variances in the operation and maintenance expense explained above.

Income from continuing operations before income taxes. The \$7.6 million and \$7.3 million increases for the three and nine months ended September 30, 2013, respectively, compared to the same periods in 2012, are the result of the aforementioned changes in operating revenues and operating expenses.

## Liquidity and Capital Resources

For a general overview of our sources and uses of capital resources, see the introductory discussion under Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources, contained in part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012.

We believe that our ability to access the capital markets, our revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term capital requirements. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper borrowings and borrowings under our revolving credit facility. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in the revolving credit facility.

In order to meet our short-term liquidity needs, we, through AWCC, issue commercial paper, which is supported by the revolving credit facility. The revolving credit facility is also used, to a limited extent, to support our issuance of letters of credit and from time to time, for direct borrowings. For example, as a result of less efficient commercial paper and money markets during the recent government shutdown in October 2013, we borrowed \$300 million on our revolving credit facility for approximately seven days. On September 9, 2013, AWCC and the bank lenders under the credit facility agreed to increase the total commitments under the credit facility from \$1 billion to \$1.25 billion. Additionally, \$1.18 billion of the credit facility has been extended from its original termination date of October 2017 to October 2018. Other than the extension of the maturity date and the increased amount of the facility, the terms and conditions of the facility are unchanged. As of September 30, 2013, AWCC had no outstanding borrowings and \$29.5 million of outstanding letters of credit under the revolving credit facility. As of September 30, 2013, AWCC had \$1.2 billion available under the credit facility that we can use to fulfill our short-term liquidity needs, to issue letters of

credit and support our \$389.4 million outstanding commercial paper borrowings. We can provide no assurances that our lenders will meet their existing contractual commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

For the three and nine months ended September 30, 2013, our liquidity position has been negatively impacted by lower cash collections on our Regulated Businesses' accounts receivables. The rate of cash collections, in particular in those states which implemented CIS in the second quarter of 2013, have been slower than historical payment patterns. We believe this degradation in collections to be as a result of certain decisions, made as part of the CIS implementation, including such items as the manual validation of bills prior to being sent. Therefore, we believe this situation to only be temporary in nature. However, there are no assurances that the rate of cash collection will return to the previous historical payment patterns.

We expect the following factors to have an impact on our liquidity position in the fourth quarter of 2013:

- Continued lower cash collections in our Regulated Businesses' accounts receivable; Based on the experience of our Regulated operating companies for which CIS was implemented in the second quarter of 2013 and in light of implementing CIS in the remaining regulated operating subsidiaries in October 2013, we expect that the slower cash collections on our Regulated Businesses' accounts receivable will continue for the remainder of 2013 and into the first half of 2014;

·Finalization of tender offer; On October 8, 2013, we purchased and retired \$225.8 million of our 6.085% Senior Notes due 2017 through a tender offer. We paid \$271.8 million to effect the tender, which in addition to the principal amount included a repurchase premium of \$39.4 million and accrued interest of \$6.6 million;

·Issuance of notices of redemption; On November 1, 2013, we issued a notice of redemption for \$74.8 million of outstanding Senior Notes with an interest rate of 8.25% and a maturity date of 2038. Also, on that date, we issued a notice of redemption for \$75.0 million of outstanding Senior Notes with a coupon rate of 10.0% and a maturity date of 2038;

·Long-term debt maturities; \$101.0 million in long-term debt maturities due December 21, 2013.

#### Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Cash flows from operating activities for the nine months ended September 30, 2013 were \$688.7 million compared to \$735.0 million for the nine months ended September 30, 2012.

The following table provides a summary of the major items affecting our cash flows from operating activities for the nine months ended September 30, 2013 and 2012:

	For the nine months ended	
	September 30,	
	2013	2012
	(In thousands)	
Net income	\$ 309,571	\$ 302,592
Add (subtract):		
Non-cash operating activities (1)	562,265	532,316
Changes in working capital (2)	(105,496)	(3,858)
Pension and postretirement healthcare contributions	(77,664)	(96,036)
Net cash flows provided by operations	\$ 688,676	\$ 735,014

(1)Includes, depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2)Changes in working capital include changes to receivables and unbilled utility revenue, taxes receivable including income taxes, other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address this timing issue through the aforementioned liquidity funding mechanisms. As noted above, our cash collections for our Regulated Businesses accounts receivable has been slower than historical payment patterns, in particular for those operating companies in which we implemented the new CIS system in May 2013. We believe the slowdown in collections is the result of our CIS implementation and therefore is only temporary in nature. Also, as noted above, we implemented the CIS system in our remaining Regulated Businesses in October 2013. We expect to experience a similar slowdown in cash collections for these operating companies as was experienced for the companies that implemented CIS in May 2013.

#### Cash Flows from Investing Activities

The following table provides information regarding cash flows used in investing activities for the periods indicated:

	For the nine months ended	
	September 30,	
	2013	2012
	(In thousands)	
Capital expenditures	\$ (665,262)	\$ (680,357)
Proceeds from sale of assets and securities	749	560,095
Acquisitions	(16,554)	(44,333)
Other investing activities, net (1)	(38,300)	(20,761)
Net cash flows provided by (used in) investing activities	\$ (719,367)	\$ (185,356)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash flows used in investing activities for the nine months ended September 30, 2013 was \$719.4 million compared to \$185.4 million for the nine months ended September 30, 2012. The variance from 2012 to 2013 is mainly attributable to the fact that the 2012 amount included proceeds received from the sale of our Arizona and New Mexico subsidiaries. Also, reflected in the 2012 amount was the purchase of seven regulated water systems in New York. The decrease in net capital expenditure of \$15.1 million is principally due to a reduction in our capital spending for our business transformation project.

#### Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access the capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be financed with customer advances and contributions for construction (net of refunds).

As previously noted AWCC is a wholly-owned finance subsidiary of the Company. Based on the needs of our regulated subsidiaries and the Company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the Company. The regulated subsidiaries and the Company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the Company's borrowings are not a source of capital for the regulated subsidiaries, the Company is not able to recover the interest charges on the Company's debt through regulated water and wastewater rates.

Our intent is to utilize commercial paper for short-term liquidity as commercial paper borrowings has historically been more flexible and a lower cost option. However, if necessary we utilize our credit facility to complement our borrowings in the commercial paper market. Certain disruptions in the money market sector of the debt capital markets may make borrowings under our revolving credit facility to be more efficient and/or a lower cost alternative to commercial paper.

The following table provides information on long-term debt that was issued during the first nine months of 2013:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
Other subsidiaries	Private activity bonds and government funded debt-fixed rate	1.59%-2.41%	2031-2033	\$ 2,737
Total issuances				\$ 2,737

Proceeds from the above issuances were received from Pennsylvania Infrastructure Investment Authority and will be used to fund certain specified projects. We also assumed \$0.1 million of debt via acquisition in the second quarter of 2013.

The following long-term debt was retired through optional redemption, sinking fund provisions or payment at maturity during the first nine months of 2013:

Company	Type	Interest Rate	Maturity	Amount
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Other subsidiaries(1)	Private activity bonds and government funded debt	fixed rate	0.00%-5.50%	2013-2041	\$ 13,934
Other subsidiaries	Mortgage bonds	fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatorily redeemable preferred stock		8.49%	2036	1,200
Other	Capital leases and other				240
Total retirements and redemptions					\$ 17,374

(1) Includes \$3.0 million of non-cash redemptions via the use of restricted funds.

As previously noted, on October 8, 2013, we announced the purchase and retirement through a tender offer of \$225.8 million in aggregate outstanding principal amount of our 6.085% Senior Notes due 2017. On October 8, 2013, we paid \$271.8 million to effect the tender, which in addition to the principal included a repurchase premium of \$39.4 million and accrued interest of \$6.6 million. Also, in October 2013 and related to the tender, we recorded transaction fees of \$0.7 million and a write-off of \$0.5 million for unamortized debt issuance costs. The tender was financed through commercial paper borrowing, reducing our liquidity relative to September 30, 2013. As a result of the retirement of this debt and based on the weighted-average interest rate on short-term borrowings for the third quarter of 2013, we would expect to have pre-tax interest expense savings of approximately \$13 million in 2014.

On November 1, 2013, we issued notices of redemption for \$74.8 million and \$75.0 million of outstanding Senior Notes with an original maturity of date of 2038 and interest rates of 8.25% and 10.0%, respectively. These notes will be retired on December 1, 2013. Additionally, \$101.0 million in Senior Notes matures on December 21, 2013. We expect to issue Senior Notes in the near future to finance these redemptions and the maturity.

From time to time, and as market conditions warrant, we may engage in additional long-term debt retirements via tender offers, open market repurchases or other viable transactions.

#### Credit Facilities and Short-Term Debt

Short-term debt at September 30, 2013 consists of the following:

	Amount (In thousands)
Commercial paper, net \$	389,435
Total short-term debt \$	389,435

On September 9, 2013, the Company announced that AWCC and its lenders had agreed to increase lending commitments under AWCC's revolving credit facility from \$1 billion to \$1.25 billion. In addition, \$1.18 billion of the credit facility has been extended from its original termination date of October 2017 to October 2018.

On the same date, the Company also amended its commercial paper program by increasing the maximum borrowing capability from \$700 million to \$1 billion.

The following table provides information as of September 30, 2013 regarding letters of credit sub-limits under our revolving credit facility and available funds under the revolving credit facility, as well as outstanding amounts of commercial paper and borrowings under our revolving credit facility.

Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sub-limit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
(In thousands)					
September 30, 2013	\$ 1,250,000	\$ 1,220,536	\$ 150,000	\$ 120,536	\$ 389,435

The weighted-average interest rate on short-term borrowings for the three months ended September 30, 2013 and 2012 was approximately 0.33% and 0.49%, respectively, and 0.36% and 0.50% for the nine months ended September 30, 2013 and 2012, respectively.

#### Capital Structure

The following table provides information regarding our capital structure for the periods presented:

At September 30, 2013	At December 31, 2012
-----------------------------	----------------------------

Common stockholders' equity and preferred stock without mandatory redemption rights	45%	44%
Long-term debt and redeemable preferred stock at redemption value	50%	52%
Short-term debt and current portion of long-term debt	5%	4%
	100%	100%

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in the ability to pay dividends, issue new debt or access our revolving credit facility. We were in compliance with our covenants as of September 30, 2013. Failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. As of September 30, 2013, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

## Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

On May 24, 2013, Standard & Poor's Ratings Service, (S & P), upgraded its corporate credit rating to A- on AWCC and American Water and AWCC's A2 short term rating. On that date, they also confirmed its stable rating outlook for American Water and AWCC. On May 29, 2013, Moody's upgraded its rating outlook for both American Water and AWCC from Baa2 to Baa1 and revised its rating outlook to stable.

The following table shows the Company's securities ratings as of September 30, 2013:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect that our posting of collateral would have a material adverse impact on our results of operations, financial position or cash flows.

## Dividends

Our board of directors' practice has been to distribute to our shareholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Since the dividends on our common stock are not cumulative, only declared dividends will be paid.

On June 3, 2013 and September 3, 2013, the Company made cash dividend payments of \$0.28 per share to all shareholders of record as of May 24, 2013 and August 19, 2013, respectively. In order to provide an opportunity for our shareholders to take advantage of lower 2012 tax rates, the cash dividend payment that would have historically been paid in March 2013 was paid in December 2012. In March and June 2012, we made cash dividend payments of \$0.23 per share to all shareholders of record as of February 3, 2012 and April 20, 2012, respectively. On September 3,

2012, a cash dividend payment of \$0.25 per share was paid to all shareholders of record as of July 6, 2012.

On September 27, 2013, our board of directors declared a quarterly cash dividend payment of \$0.28 per share payable on December 2, 2013 to all shareholders of record as of November 15, 2013.

#### Market Risk

There have been no significant changes to our market risk since December 31, 2012. For a discussion of our exposure to market risk, refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk, contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Management's Discussion and Analysis of Financial Condition and Results of

Operations Critical Accounting Policies and Estimates, in our Form 10-K for the year ended December 31, 2012 filed with the SEC for a discussion of our critical accounting policies.

#### Recent Accounting Pronouncements

See Part I, Item 1 Financial Statements (Unaudited) Note 2 New Accounting Pronouncements in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see Market Risk in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

American Water Works Company, Inc. maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of September 30, 2013 pursuant to 15d-15(e) under the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2013, our disclosure controls and procedures were effective at a reasonable level of assurance. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

However, as disclosed in our Quarterly Report on Form 10-Q for the period ended June 30, 2013, on May 20, 2013, we implemented the Enterprise Asset Management system and the Customer Information system modules of our ERP,

SAP ECC 6.0 for certain of our Regulated operating subsidiaries. The implementation was part of our continued focus on upgrading and enhancing our financial systems with the goals of increasing our operating efficiencies and effectiveness and controlling the costs associated with the operation of our business, all of which are important to providing quality and reliable service to our customers and communities we serve. It was not in response to any internal control deficiencies.

We are in the process of testing the internal controls over financial reporting resulting from modifications to our business processes from this implementation. Although efforts have been made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the Form 10-K) in Part I, Item 3, Legal Proceedings, and in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2013 (the Form 10-Q):

The Form 10-K describes the filing by California-American Water Company (CAWC) of a formal claim with Marina Coast Water District (MCWD) seeking monetary damages from MCWD, and the Board of MCWD's notice that it rejected CAWC's claim. As noted in the Form 10-Q, CAWC and MCWD entered into a tolling agreement and extension of the agreement with respect to CAWC's claims, which toll applicable statutes of limitations and the deadline for commencement of litigation regarding CAWC's claims until October 14, 2013. A subsequent agreement between CAWC and MCWD extend the tolling and deadline for the commencement of litigation to March 1, 2014.

In addition, the Form 10-K describes the June 21, 2012 Decision of the California Public Utilities Commission (CPUC) to approve CAWC's implementation of a project to reroute the Carmel River and remove the San Clemente Dam, as well as the July 27, 2012 filing by the Division of Ratepayer Advocates of the CPUC (the DRA) of an application for rehearing of the Decision. On April 4, 2013, the CPUC denied the application.

The Form 10-K also describes CAWC's Complaint for Declaratory Relief against the Monterey County Water Resources Agency (MCWRA) and MCWD, currently before the San Francisco County Superior Court. The Complaint seeks a determination by the Court as to whether the certain agreements related to the [now abandoned] Regional Desalination Project are void as a result of the alleged conflict of interest of a former director of MCWRA (described in the Form 10-K), or remained valid (the Complaint also seeks a determination, in the event the agreements are deemed valid, that MCWRA anticipatorily repudiated the agreements and that CAWC had the right to terminate the agreements based on the anticipatory repudiation). On October 9, 2013, MCWD filed a Motion for Summary Judgment and Summary Adjudication, seeking a determination that the agreements are valid. MCWD asserts that the Court does not have jurisdiction to determine the validity of the agreements on the basis that the agreements were approved by final decisions of the CPUC and under the California Public Utilities Code, superior courts are prohibited from exercising jurisdiction to decide matters that would interfere with the CPUC's policies or performance of its duties. MCWD also argued that the action was barred by 60-day statutes of limitations applicable to certain contracts entered into by the MCWD and to certain contracts entered into by the MCWRA. CAWC intends to challenge the motion in responsive pleadings. On October 10, 2013, the Court issued a Case Management Order including a proposed schedule calling for commencement of a trial with regard to the validity of the agreements in February 2014.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the Risk Factors in the Company's Form 10-K for the year ended December 31, 2012, and our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from risk factors previously disclosed in Risk Factors in the Company's Form 10-K for the year ended December 31, 2012.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

None

**ITEM 5. OTHER INFORMATION**

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
*31.1	Certification of Jeffry Sterba, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Jeffry Sterba, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of, Susan N. Story, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following financial statements from American Water Works Company, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, filed with the Securities and Exchange Commission on November 6, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Stockholders Equity; and (v) the Notes to Consolidated Financial Statements.

\* filed herewith.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of November, 2013.

AMERICAN WATER WORKS COMPANY, INC.

(REGISTRANT)

/S/ Jeffrey Sterba  
Jeffrey Sterba

President and Chief Executive Officer

Principal Executive Officer

/S/ Susan N. Story  
Susan N. Story

Senior Vice President and Chief Financial Officer

Principal Financial Officer

/S/ Mark Chesla  
Mark Chesla

Vice President and Controller

Principal Accounting Officer



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