

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1998

Commission File Number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(610)-527-8000

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1998.

27,666,643

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share amounts)

	September 30, 1998	December 31, 1997
	----- (Unaudited)	----- (Audited)
Assets		
Property, plant and equipment, at cost	\$ 719,222	\$ 656,011

Less accumulated depreciation	132,356	121,528
Net property, plant and equipment	586,866	534,483
Current assets:		
Cash	1,391	680
Accounts receivable, net	28,131	23,534
Inventory, materials and supplies	1,830	1,847
Prepayments and other current assets	581	1,002
Total current assets	31,933	27,063
Regulatory assets	51,096	51,203
Deferred charges and other assets, net	5,854	5,723
	\$ 675,749	\$ 618,472
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock at \$.50 par value, authorized 40,000,000 shares, outstanding 27,666,643 and 26,210,654 in 1998 and 1997	14,100	13,294
Capital in excess of par value	158,831	128,065
Retained earnings	64,690	56,136
Treasury stock, 533,767 and 376,510 shares in 1998 and 1997	(9,490)	(5,970)
Total stockholders' equity	231,351	194,745
Long-term debt, excluding current portion	257,534	232,471
Commitments	-	-
Current liabilities:		
Current portion of long-term debt and preferred stock of subsidiary	2,448	6,662
Loans payable	5,110	10,400
Accounts payable	5,713	10,259
Accrued interest	4,034	3,978
Accrued taxes	5,380	3,643
Other accrued liabilities	11,178	9,755
Total current liabilities	33,863	44,697
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	87,253	83,129
Customers' advances for construction	26,304	25,810
Other	13,444	12,764
Total deferred credits and other liabilities	127,001	121,703
Contributions in aid of construction	26,000	24,856
	\$ 675,749	\$ 618,472

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

(UNAUDITED)

	Nine Months Ended September 30,	
	1998	1997
Earned revenues	\$113,273	\$101,090
Costs and expenses		
Operating expenses	42,402	40,829
Depreciation	11,297	10,681
Amortization	622	24
Taxes other than income taxes	7,765	6,407
	-----	-----
	62,086	57,941
	-----	-----
Operating income	51,187	43,149
Interest expense	14,189	13,423
Dividends on preferred stock of subsidiary	15	279
Allowance for funds used during construction	(577)	(334)
	-----	-----
Income before income taxes	37,560	29,781
Provision for income taxes	15,251	12,074
	-----	-----
Net income	22,309	17,707
Dividends on preferred stock	146	146
	-----	-----
Net income available to common stock	\$22,163	\$17,561
	=====	=====
Basic net income per common share	\$ 0.81	\$ 0.68
	=====	=====
Diluted net income per common share	\$ 0.80	\$ 0.67
	=====	=====
Average common shares outstanding during the period:		
Basic	27,314	25,825
	-----	-----
Diluted	27,770	26,176
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended September 30,	
	1998	1997
Earned revenues	\$41,656	\$36,754

Costs and expenses		
Operating expenses	14,714	14,466
Depreciation	3,974	3,385
Amortization	208	11
Taxes other than income taxes	2,964	2,083
	-----	-----
	21,860	19,945
	-----	-----
Operating income	19,796	16,809
Interest expense	4,765	4,463
Dividends on preferred stock of subsidiary	-	92
Allowance for funds used during construction	(205)	(141)
	-----	-----
Income before income taxes	15,236	12,395
Provision for income taxes	6,166	5,023
	-----	-----
Net income	9,070	7,372
Dividends on preferred stock	48	49
	-----	-----
Net income available to common stock	\$9,022	\$7,323
	=====	=====
Basic net income per common share	\$ 0.33	\$ 0.28
	=====	=====
Diluted net income per common share	\$ 0.32	\$ 0.28
	=====	=====
Average common shares outstanding during the period:		
Basic	27,601	26,015
	=====	=====
Diluted	28,083	26,353
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Nine Months Ended	
	September 30,	
	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 22,309	\$ 17,707
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	11,919	10,705
Deferred taxes, net of taxes on customers' advances	3,633	3,485
Net increase in receivables, inventory and prepayments	(4,799)	(1,220)
Net increase (decrease) in payables, accrued interest and other accrued liabilities	784	(3,785)

Other	(230)	(703)
Net cash flows from operating activities	33,616	26,189
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$577 and \$334	(37,725)	(22,580)
Acquisitions of water systems	(23,911)	(1,090)
Other	141	(459)
Net cash flows used in investing activities	(61,495)	(24,129)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	999	854
Repayments of customers' advances	(1,119)	(1,736)
Net proceeds (repayments) of short-term debt	(5,290)	4,510
Proceeds from long-term debt	27,245	19,712
Repayments of long-term debt	(2,400)	(18,419)
Redemption of preferred stock of subsidiary	(4,214)	(1,428)
Proceeds from issuing common stock	30,505	8,528
Repurchase of common stock	(3,334)	(1,965)
Dividends paid on preferred stock	(146)	(146)
Dividends paid on common stock	(13,609)	(11,957)
Other	(47)	(82)
Net cash flows from (used in) financing activities	28,590	(2,129)
Net increase (decrease) in cash	711	(69)
Cash balance beginning of year	680	1,518
Cash balance at end of period	\$ 1,391	\$ 1,449

See Acquisitions and Water Sale Agreements footnote for description of non-cash investing and financing activities.

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)

	September 30, 1998	December 31, 1997
	(Unaudited)	(Audited)
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock, \$.50 par value	14,100	13,294
Capital in excess of par value	158,831	128,065
Retained earnings	64,690	56,136
Treasury stock	(9,490)	(5,970)
Total stockholders' equity	231,351	194,745
Preferred stock of subsidiary with mandatory redemption requirements		
	-	4,214
Current portion of preferred stock of subsidiary	-	4,214
	-	-
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
5.95% Series, due 2002*	1,600	2,000
6.30% Series, due 2002	10,000	10,000
5.80% Series, due 2003	10,000	-

6.83% Series, due 2003	10,000	10,000
7.47% Series, due 2003	10,000	10,000
7.06% Series, due 2004	10,000	10,000
6.82% Series, due 2005	10,000	10,000
6.99% Series, due 2006	10,000	10,000
6.75% Series, due 2007	10,000	10,000
6.14% Series, due 2008	10,000	-
9.89% Series, due 2008	5,000	5,000
7.15% Series, due 2008*	20,000	22,000
9.12% Series, due 2010	20,000	20,000
6.50% Series, due 2010*	3,200	3,200
9.17% Series, due 2011	5,000	5,000
9.93% Series, due 2013	5,000	5,000
6.89% Series, due 2015	12,000	12,000
9.97% Series, due 2018	5,000	5,000
9.17% Series, due 2021*	8,000	8,000
6.35% Series, due 2025	22,000	22,000
7.72% Series, due 2025	15,000	15,000
9.29% Series, due 2026	12,000	12,000
	-----	-----
Total First Mortgage Bonds	223,800	206,200
Note payable to bank under revolving credit agreement, due January 2000	34,591	27,128
Installment note payable, 9%, due in equal annual payments through 2013	1,591	1,591
	-----	-----
Current portion of long-term debt	259,982	234,919
	2,448	2,448
	-----	-----
Long-term debt, excluding current portion	257,534	232,471
	-----	-----
Total capitalization	\$ 488,885	\$ 427,216
	=====	=====

*Trust indentures relating to these First Mortgage Bonds require annual sinking fund payments.

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of capitalization of Philadelphia Suburban Corporation ("PSC" or "the Company") at September 30, 1998, the consolidated statements of income for the nine months and quarter ended September 30, 1998 and 1997, and the consolidated statements of cash flow for the nine months ended September 30, 1998 and 1997 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position at September 30, 1998, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the consolidated financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 1997 and the Quarterly Report on Form 10-Q for the quarters ended March 31, 1998 and June 30, 1998.

Note 2 Merger with Consumers Water Company

On June 27, 1998, the Company entered into a definitive merger agreement with Consumers Water Company ("Consumers"), which was amended and restated by the parties effective as of August 5, 1998. The merger is subject to several conditions, including the approval of the shareholders of both companies and the various state regulatory

agencies. The special meetings of the shareholders of both companies to vote on the merger proposal are scheduled for November 16, 1998. The Company continues to actively pursue the regulatory approvals necessary to close the transaction as early as possible. Because of the state regulatory approval processes, it appears unlikely that all five states will grant approval by the end of the year. The merger will be accounted for as a pooling-of-interests under Accounting Principles Board Opinion No. 16. Consumers is based in Portland, Maine and serves approximately 223,000 customers in service territories covering parts of Ohio, Illinois, Pennsylvania, New Jersey and Maine. The revenues of Consumers for the nine months ended September 30, 1998 were \$72,832, excluding revenues from its former New Hampshire operations. As of September 30, 1998, Consumers' total assets were \$442,114.

Note 3 Acquisitions and Water Sale Agreements

In January 1998, Philadelphia Suburban Water Company ("PSW") purchased the water utility assets of West Chester Area Municipal Authority ("West Chester") for \$23,804 in cash. The West Chester service territory covers 16 square miles and is contiguous to PSW's territory. The annual revenues of the West Chester system approximate \$4,500. Revenues related to West Chester were \$1,278 for the third quarter and \$3,274 since the date of acquisition.

In March 1998, PSW entered into a 25-year water sale agreement with Warwick Township Water and Sewer Authority for the sale of water to supplement its water supply. Warwick Township is located in Bucks County and is near PSW's existing service territory. The agreement stipulates sales of a minimum quantity of 460,000 gallons of water per day to the year 2023. The water sales associated with this agreement began in October 1998, upon completion of a water main connection from Warwick Township to PSW's service territory.

6

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)

The annual revenues resulting from this water sale agreement are expected to approximate \$330.

In April 1998, PSW acquired the water system assets of the Brandywine Hospital complex for \$110 in cash and assumed approximately \$110 in liabilities. This water supply system is located adjacent to PSW's service territory in Caln Township, Chester County. The annual revenues of this system are expected to approximate \$100.

In April 1998, PSW entered into an agreement with Bensalem Township, Bucks County for PSW to provide water service to a new development covering a one square mile area in the Township. The service territory is located adjacent to PSW's existing service territory near a major interstate highway interchange in suburban Philadelphia. The revenue from this service territory, once developed, is anticipated to approximate \$200 annually.

In June 1998, PSW acquired the Flying Hills Water Company ("Flying Hills") in a purchase transaction for 42,000 shares of the Company's Common Stock. The Flying Hills system covers a one square mile service territory in Cumru Township, Berks County near Reading, Pennsylvania and is 16 miles from the nearest edge of PSW's system. The annual revenues of this system approximate \$200.

In June 1998, PSW entered into an agreement to purchase the water system assets of the Greenhills Corporate Center for \$535 in cash. This water system covers a 0.15 square mile area in Cumru Township, Berks County. PSW has received PUC approval for this acquisition and it is expected to be completed in the fourth quarter of 1998. The annual revenues of this system approximate \$40.

The Company continues to actively explore other opportunities to expand its water utility operations through acquisitions or otherwise.

PSW is permitted by the Pennsylvania Public Utility Commission ("PUC") to add a Distribution System Improvement Charge ("DSIC") to its water bills reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. The PUC limits use of the DSIC to periods when a company's return on equity is less than a certain benchmark established by the PUC. As a result of the Company's recent favorable results of operations, the DSIC has been discontinued for the fourth quarter of 1998 and will likely remain discontinued in the first quarter of 1999. Previously, the DSIC had been set at 0.67% of base water rates during the third quarter of 1998 after having been zero since PSW's last rate case settlement in October 1997.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands of dollars, except per share amounts)

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements address, among other things, the Company's: use of cash; projected capital expenditures; the proposed merger with Consumers Water Company; liquidity; Year 2000 disclosure, including statements regarding readiness, remediation, costs, risks and contingency plans; as well as information contained elsewhere in this Report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside the Company's control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, changes in capital requirements and funding, acquisitions and the Year 2000 readiness of third parties with whom the Company deals. The Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

Philadelphia Suburban Corporation ("PSC" or "the Company"), a Pennsylvania corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW"), a regulated water utility. PSW provides water to approximately 300,000 customers in 96 municipalities within its 481 square-mile service territory. PSW's service territory is located north and west of the City of Philadelphia. In addition, PSW provides water service to approximately 6,600 customers through an operating and maintenance contract with a municipal authority contiguous to its service territory.

Financial Condition

During the first nine months of 1998, the Company acquired the water utility assets of West Chester Area Municipal Authority ("West Chester") for \$23,804 in cash, made \$37,725 of capital expenditures in PSW's service territory related to routine capital improvements and replacements, redeemed \$4,214 of Preferred Stock of subsidiary, repurchased \$3,334 of its common stock and, repaid \$1,119 of customer advances for construction.

During the first nine months, proceeds from the issuance of common stock, the proceeds from two long-term debt issues, internally generated funds, available working capital, funds available under the revolving credit agreement and lines of credit were used to fund the cash requirements discussed above, and to pay dividends. In January 1998, PSW issued First Mortgage Bonds of \$10,000 6.14% Series due 2008 and \$10,000 5.8% Series due 2003 through its medium-term note program. Proceeds from these issues were used to reduce the balance of PSW's revolving credit facility. In February 1998, the Company issued 1.25 million shares of common stock in a public offering for net proceeds of \$25,840. The proceeds of this offering were used to make a \$19,000 equity contribution in PSW and to repay short-term debt of the Company. PSW used the \$19,000 equity

contribution from the Company to repay amounts outstanding under its revolving credit facility. Effective with the September 1, 1998 payment, the Company has increased the quarterly dividend on common stock from \$.1625 per share to \$.17 per share.

At September 30, 1998, the Company and PSW had \$9,890 and \$1,000 available, respectively under short-term lines of credit and PSW had \$15,409 available under its \$50,000 revolving credit agreement.

In connection with the merger agreement with Consumers, the Company will issue approximately 11.8 million shares of common stock based on the exchange formula defined in the merger agreement and the market price of the Company's Common Stock as of October 30, 1998. The Company continues to actively pursue the regulatory approvals necessary to close the transaction as early as possible. Because of the state regulatory approval processes, it appears unlikely that all five states will grant approval by the end of the year.

Management believes that internally generated funds along with existing credit facilities and its ability to issue additional long-term debt are adequate to meet the Company's financing requirements for the balance of the year and beyond.

8

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Results of Operations

Analysis of First Nine Months of 1998 Compared to First Nine Months of 1997

Revenues increased \$12,183 or 12.1% as a result of the 7.3% rate increase granted PSW in October 1997, the West Chester acquisition, and an increase in water sales associated with the hot dry weather experienced during the summer of 1998.

Operating expenses increased by \$1,573 or 3.9% due to the additional operating costs associated with the West Chester acquisition, increased wages and administrative expenses, and higher production costs resulting from the increased volume of water sold in the third quarter. The increased operating costs were partially offset by the effects of the mild winter which resulted in fewer main breaks and reduced maintenance expenses, savings from reduced electric costs as a result of the pilot program under the electric deregulation program in Pennsylvania and continuing cost containment efforts.

Depreciation increased \$616 or 5.8% reflecting utility plant placed in service since the third quarter of 1997, including the assets from the West Chester acquisition, and due to increases in depreciation rates resulting from a routine annual service life study completed in the third quarter of 1998. Depreciation was approximately 2.54% and 2.43% of average utility plant in service in the first nine months of 1998 and 1997 respectively.

Amortization increased \$598 primarily due to the amortization of the costs associated with PSW's 1997 rate filing.

Taxes other than income taxes increased by \$1,358 or 21.2% as a result of increases in the Pennsylvania Public Utility Realty Tax ("PURTA") and local real estate taxes. The increase in the PURTA tax is due to an anticipated additional tax assessment to offset a state-wide deficit in the collection of this tax. In addition, PURTA and local real estate taxes increased due to the acquisition of West Chester and capital expenditures completed in the last year.

Interest expense increased \$766 or 5.7% due to increased borrowings, partially offset by lower interest rates. The increased borrowings were used to finance the West Chester acquisition and PSW's ongoing capital projects.

Dividends on preferred stock of subsidiary decreased \$264 due to the redemption of the remaining shares with a par value of \$4,214 in January 1998.

Allowance for funds used during construction ("AFUDC") increased by \$243 or 72.8% due to an increase in the average balance of utility plant construction work in progress.

The Company's effective income tax rate was 40.6 % for the first nine months of 1998 and 40.5% in 1997.

9

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Net income available to common stock increased by \$4,602 or 26.2% primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.13 or 19.4% reflecting the improvement in net income, partially offset by the 5.8% increase in the average number of shares outstanding. The increased number of average shares outstanding during the period is primarily a result of the 1.25 million share stock offering in February 1998 and the additional shares sold through the Dividend Reinvestment Plan and the employee stock and incentive plan.

Analysis of Third Quarter of 1998 Compared to Third Quarter of 1997

Revenues for the quarter increased \$4,902 or 13.3% primarily as a result of the 7.3% rate increase granted PSW in October 1997, the West Chester acquisition and an increase in water sales associated with the hot, dry weather experienced during the summer of 1998.

Operating expenses increased \$248 or 1.7% primarily due to the West Chester acquisition, increased production costs resulting from the increased volume of water sold and increased wages and administrative costs. The increased operating costs were partially offset by a reduction in insurance expense and savings from reduced electric costs as a result of the pilot program under the electric deregulation program in Pennsylvania.

Depreciation increased \$589 or 17.4% reflecting utility plant placed in service since the third quarter of 1997, including the assets from the West Chester acquisition and due to adjustments recorded in the third quarter of 1998 resulting from a routine service life study that was applied for the year-to-date period. Depreciation was approximately 2.51% and 2.37% of average utility plant in the third quarter of 1998 and 1997, respectively.

Amortization increased \$197 primarily due to the costs associated with the 1997 rate filing.

Taxes other than income taxes increased by \$881 or 42.3% as a result of increases in the Pennsylvania Public Utility Realty Tax ("PURTA") and local real estate taxes. The increase in the PURTA tax is due to an anticipated additional tax assessment to offset a state-wide deficit in the collection of this tax. In addition, PURTA and local real estate taxes increased due to the acquisition of West Chester and capital expenditures completed in the last year.

Interest expense increased \$302 or 6.8% due to increased borrowings, partially offset by lower interest rates. The increased borrowings were used to finance the West Chester acquisition and PSW's ongoing capital projects.

Dividends on preferred stock of subsidiary decreased \$92 due to the redemption of the remaining shares with a par value of \$4,214 in January 1998.

Allowance for funds used during construction ("AFUDC") increased by \$64 due to an increase in the average balance of utility plant construction work in progress.

The Company's effective income tax rate was 40.5% in 1998 and 1997.

10

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Net income available to common stock increased by \$1,699 or 23.2% primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.04 or 14.3% reflecting the improvement in net income, partially offset by the 6.1% increase in the average number of shares outstanding. The increased number of average shares outstanding during the period is primarily a result of the 1.25 million share stock offering in February 1998 and the additional shares sold through the Dividend Reinvestment Plan and the employee stock and incentive plans.

Year 2000

Overview

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The Company is actively pursuing a Year 2000 Program (the "Program"). The objective of the Program is to ensure that the Company's critical systems and processes that impact the Company's ability to deliver water to its customers will not experience significant interruptions that would interfere with such water service or result in a material business impairment that would have an adverse impact to the Company's operations, liquidity or financial condition as a result of the Year 2000 issue. For purposes of the Program, the Year 2000 issue is defined as whether information technology accurately processes date and time data from, into and between the twentieth and twenty-first centuries, and the years 1999 and 2000 and leap year calculations. The Company's systems and processes being reviewed include: (i) internal systems and processes, consisting of software, databases, information technology hardware and imbedded microprocessors; and (ii) relationships with third parties. The Program involves a systematic approach to the Year 2000 issue consisting of the following steps: (i) inventorying the component elements of the Company's systems and processes; (ii) assessing whether there are Year 2000 issues with such systems and processes; (iii) remediation of systems and processes that are identified as having Year 2000 issues; (v) testing the remediation measures that are implemented; and (vi) developing contingency plans. In addition to the Company's Program, the PUC has instituted a formal proceeding for the purpose of determining all matters concerning Year 2000 compliance of all jurisdictional fixed utilities, which would include the Company's primary subsidiary, PSW. The PUC is requiring that utilities affirmatively demonstrate that their mission-critical systems will be Year 2000 compliant by March 31, 1999 or provide the PUC with detailed contingency plans to ensure the uninterrupted continuation of utility service throughout the transition from the twentieth to the twenty-first century, including leap year. PSW has responded to the PUC's initial questionnaire concerning Year 2000 compliance and intends to comply with the PUC's requirements.

The Company's State of Readiness

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Internal Systems and Processes - The Company is evaluating its systems and processes based on a prioritization of the risks they pose to the overall objectives of the Program. Therefore, different systems and processes are in different phases of the overall Program. An inventory of all critical systems and processes has been in progress and the Company intends to complete the inventory in November 1998. An assessment of Year 2000 issues for the Company's critical systems is being performed concurrently with the inventory and the Company intends to complete the assessment process by December 1998. Remediation of critical systems and processes identified to date as having Year 2000 issues are either being implemented or planned. Testing of remediation measures will begin as soon as practicable after the completion of the remediation. Based on the assessment completed to date, the Company intends to complete the remediation and testing of critical systems requiring remediation by March 1999

or to develop contingency plans for critical systems and processes that it may not be able to verify as being compliant by March 1999.

11

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Relationships with Third Parties - The Company's relationships with third parties that may be affected by the Year 2000 issue may be classified into three categories; customers; suppliers; and third party software vendors. Based on 1997 revenues, approximately 67% of the Company's revenues are from residential customers, 23% from commercial customers (consisting primarily of apartments, colleges, hospitals, small businesses and municipalities), and 6% from fire protection services. It is not anticipated that water use by customers in these categories will be significantly affected by the Year 2000 issue. The Company's industrial customers represent approximately 4% of its total 1997 revenues and the Company intends to contact its largest industrial customers to determine whether they anticipate any adverse effect on their demand for water as a result of the Year 2000 issue. No single customer accounted for more than one percent of the Company's 1997 revenues. The Company has contacted its key suppliers to determine their Year 2000 compliance status and the responses received to date indicate that such suppliers are or intend to be Year 2000 compliant. Because of the substantial electric power requirements of the Company's water treatment and distribution systems, electric power supply may be the most critical supplier relationship. To date, the Company's electric supplier, which is also subject to the PUC's review, has indicated that it expects to be Year 2000 compliant by October 31, 1999. Third party vendors of critical software systems have been contacted regarding the compliance status of their software and either the vendors have represented that their software packages are compliant or the software is being remedied as part of the Company's Year 2000 Program.

The Costs to Address the Company's Year 2000 Issues

The Company estimates its cost to date for its Year 2000 Program to be approximately \$2,400, including the costs for a new customer billing system that the Company is implementing to provide added capacity and capabilities. The Company presently estimates that it will spend an additional amount of approximately \$2,000 to bring all of its critical systems into compliance.

The Risks of the Company's Year 2000 Issues

A material Year 2000 noncompliance could result in an interruption in, or failure of, certain normal business activities or operations. Such noncompliance could materially and adversely affect the Company's water service and results of operations, liquidity and financial condition. Because of the uncertainty inherent in the Year 2000 issue, due in part from the uncertainty of the Year 2000 readiness of third party suppliers, the Company is unable to determine at this time whether the consequences of Year 2000 noncompliances will have a material impact on the Company. The Company's Year 2000 Program is expected to significantly reduce the Company's level of uncertainty about the Year 2000 issue and, in particular, about the Year 2000 compliance and readiness of its material vendors and suppliers. The Company believes that, with the completion of its Program, the possibility of significant interruptions of normal operations should be reduced.

The Company's Contingency Plans

The Company is evaluating contingency plans in the event that any critical systems or processes cannot be verified as Year 2000 compliant by March 1999. Contingency plans may also be developed for certain other critical systems, notwithstanding a determination of their Year 2000 compliance, if such systems would have a significant effect on the Company's ability to deliver water to its customers. The Company intends to complete its contingency planning process by March 1999.

Forward-looking Statements

The statements in the Company's Year 2000 disclosure contain forward-looking statements and should be read in conjunction with the Company's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

12

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Impact of Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company has adopted this statement effective January 1, 1998 and has no components of other comprehensive income to report.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also established standards for related disclosure about products and services, geographic areas and major customers. The Company will adopt the disclosure prescribed by SFAS 131 in its 1998 Annual Report as required.

In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"). This statement revises employers' disclosures about pension and other postretirement benefit plans but does not change the measurement or recognition of costs associated with those plans. It standardizes the disclosure requirements, eliminates unnecessary disclosures and requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis. SFAS 132 supersedes the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company plans to adopt this statement in its 1998 Annual Report as required.

13

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company intends to adopt this statement in its 1999 Annual Report as required. The adoption of SOP 98-1 will not have a material impact on the Company's results from operations or financial condition.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company plans to adopt this statement in 2000 as required. As of June 30, 1998, the Company had no derivative instruments or hedging activities that upon the adoption of SFAS 133 will have an impact on the Company's results from operations or financial condition.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, which is included by a reference herein.

Item 5. Other Information

The Company has entered into an Amended and Restated Merger Agreement and Plan of Merger by and among the Company, Consumers Acquisition Company and Consumers Water Company dated as of August 5, 1998. The Company has filed a copy of the Agreement as an Exhibit to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1998. A Registration Statement on Form S-4 in connection with the merger was filed with the Securities and Exchange Commission on September 21, 1998.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
----------------------	----------------------

27

Financial Data Schedule

(b) Report on Form 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be executed on its behalf by the undersigned thereunto duly authorized.

November 12, 1998

PHILADELPHIA SUBURBAN CORPORATION

Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

/s/ Michael P. Graham

Michael P. Graham
Senior Vice President - Finance
and Treasurer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
----- 27	----- Financial Data Schedule	----- 18

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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at September 30, 1998, and the consolidated statements of income and cash flow for the nine months ended September 30, 1998, and is qualified in its entirety by reference to such financial statements.

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