

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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

19010-3489

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including
area code:

(610)-527-8000

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$.50 per share	New York Stock Exchange, Inc. Philadelphia Stock Exchange Inc.

Securities registered pursuant to Section
12(g) of the Act: None

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

Yes No

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 11, 1999. \$721,807,021

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by March 11, 1999, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of each of the registrant's classes of common stock as of March 11, 1999. 40,812,334

Documents incorporated by reference

- (1) Portions of registrant's 1998 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K

Report.

- (2) Portions of the Proxy Statement, relative to the May 20, 1999 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K Report.

PART I

Item 1. Business

Philadelphia Suburban Corporation ("PSC" or the "Registrant"), a Pennsylvania corporation, was incorporated in 1968. The information appearing in "Management's Discussion and Analysis" from the portions of PSC's 1998 Annual Report to Shareholders filed as Exhibit 13.6 to this Form 10-K Report is incorporated by reference herein.

The business of PSC is conducted almost entirely through its subsidiary Philadelphia Suburban Water Company ("PSW"), a regulated public utility. PSW supplies water to approximately 300,000 residential, commercial, industrial and public customers. PSW's service territory covers 481 square miles, comprising a large portion of the suburban area west and north of the City of Philadelphia. This territory is primarily residential in nature and is completely metered for water service, except for fire hydrant service. In addition, PSW provides water service to approximately 6,600 customers through an operating and maintenance contract with a municipal authority which is contiguous to its service territory. Based on the 1990 census, PSW estimates that the total number of persons currently served is approximately 1,000,000. Excluding the customers that were added at the time of acquisitions in the last three years, customer accounts have grown at an average annual rate of approximately 1.1% for the last three years. Including acquisitions, the customer base increased at an annual compound growth rate of 4.3% over the last three years.

Operating revenues during the twelve months ended December 31, 1998 were derived approximately as follows:

65.4%	from residential customers
21.7%	from commercial customers
4.3%	from industrial customers
1.4%	from public customers
6.2%	from fire protection services
1.0%	from sales to other water utilities and miscellaneous customers

100.0%	
=====	

On March 10, 1999, the Company and Consumers Water Company ("Consumers") completed a merger with and into a wholly-owned subsidiary of the Company. The merger was effected pursuant to the June 27, 1998 merger agreement, which was amended and restated by the parties effective as of August 5, 1998. The merger was completed after the transaction received the approvals from the state utility commissions in each state in which the companies operate. The shareholders of each company approved the merger at special meetings held on November 16, 1998. Pursuant to the merger agreement, the Company issued 13,014,015 shares of common stock in exchange for all of the outstanding stock of Consumers. Consumers common shareholders received 1.432 shares of the Company's Common Stock for each Consumers common share and Consumers preferred shareholders received 5.649 shares of the Company's Common Stock for each preferred share. The merger will be accounted for as a pooling-of-interests under Accounting Principles Board Opinion No. 16. Consumers serves approximately 226,000 customers in service territories covering parts of Pennsylvania, Ohio, Illinois, New Jersey and Maine. Because the merger was not completed until after December 31, 1998, the financial information, operating data and discussions contained in this report, unless indicated or captioned otherwise, relate to the Company without consideration to the impact of the merger.

During 1998, PSW made the following acquisitions and obtained related service territory rights: in January, the water utility assets of West Chester Area Municipal Authority; in April, the water system assets of Brandywine Hospital; in June, the Flying Hills Water Company; and in November, the water system assets of the Greenhills Corporate Center. The systems acquired in 1998 incorporate 17 square miles of service area contiguous or near PSW's existing territory. The total purchase price for the four water systems acquired in 1998 was \$24,498,000 in cash and 42,000 shares of the Company's Common Stock. The annual revenues from these systems approximate \$4,800,000, and revenues included in the consolidated financial statements during the period owned by PSW were \$4,627,000. During 1998, PSW entered into a long-term water

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Item 1, Continued

sale agreement and an agreement with a local township to serve a one square mile territory: in March, 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; and in April, PSW entered into an agreement with Bensalem Township, Bucks County to provide water service to a new development in the Township. Once fully developed over time, the annual revenues from these agreements are anticipated to approximate \$500,000.

Since December 1992, PSW has acquired 25 local water systems and two small wastewater utilities. During 1997, PSW made the following acquisitions and obtained related service territory rights: in January, the water utility assets of Cherry Water Company; in September, the water utility assets of Perkiomen Township Authority; and in September, both the water and wastewater utility assets of the Peddler's View Utility Company. During 1996, PSW made the following acquisitions and obtained related service territory rights: in October, the water utility assets of Hatboro Borough Authority; in November, Utility Group Services Corporation ("UGS") which owned three water utilities and a wastewater utility; in December, the water utility assets of Bristol Borough Water and Sewer Authority; and at various times during 1996 the water utility assets of three smaller water systems. During various times in 1995, 1994, 1993, and 1992 PSW acquired the water utility assets of ten water systems. Combined, the 21 water systems and two wastewater systems acquired since December 1992 and prior to 1998 added 136 square miles of service territory near or adjacent to PSW's service territory and had revenues of \$17,886,000 in 1998.

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Item 1, Continued

Selected operating statistics. Set forth below is a table showing certain selected operating statistics for PSW for the past three years.

	1998	1997	1996

C>			
Revenues from water sales (000's omitted)			
Residential	\$ 96,244	\$ 87,783	\$ 79,056
Commercial	32,029	27,807	26,504
Industrial	6,297	5,126	4,823
Public	2,108	1,496	1,373
Fire protection	9,096	8,323	8,140
Other	1,442	995	438
Tax Surcharge (credit)	(101)	-	(1)
Distribution System Improvement Charge	229	1,104	-

Total	\$147,344	\$ 132,634	\$ 120,333

Water sales (million gallons)			
Residential	19,941	19,142	17,228
Commercial	9,313	8,819	8,236
Industrial	2,471	2,302	1,768
Public	496	396	354
Fire protection - metered	69	73	84
Other	821	750	25

Total	33,111	31,482	27,695

System delivery by source (million gallons)			
Surface (including Upper Merion reservoir)	31,438	29,470	27,278

Wells	6,237	6,378	5,136
Purchased	2,025	2,023	2,055

Total	39,700	37,871	34,469
	=====		
Number of metered customers (end of year)*			
Residential	278,436	268,550	265,746
Commercial	15,032	13,512	13,422
Industrial	744	708	716
Public	919	823	797
Fire protection	4,710	3,911	3,449
Other	9	12	11

Total	299,850	287,516	284,141
	=====		
Average consumption per customer in gallons	112,745	110,143	103,206
	=====		

* Excludes customers served under operating and maintenance contracts.

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Item 1, Continued

Water supplies and usage. PSW's principal supply of water is surface water from the Schuylkill River, Delaware River, eight rural streams which are tributaries of the Schuylkill and Delaware Rivers, and the Upper Merion Reservoir, a former quarry now impounding groundwater. All of these are either within or adjacent to PSW's service territory. PSW holds the appropriate water rights and regulatory approvals to use these sources. PSW has six impounding reservoirs and has eight treatment and pumping facilities to provide storage and treatment of these surface water supplies.

The Pennsylvania Department of Environmental Protection ("DEP") has regulatory power with respect to sources of supply and the construction, operation and safety practices for certain dams and other water containment structures under the Pennsylvania Dam Safety and Encroachments Act. PSW's dams are in compliance with these requirements in all material respects.

PSW's surface supplies are supplemented by 61 wells. PSW also has interconnections with: the Chester Water Authority, which provides for a maximum supply of up to 6.75 million gallons per day ("mgd"); and the Bucks County Water and Sewer Authority, which provides for a supply of up to 7.0 mgd. Agreements regarding these interconnections require PSW to purchase certain minimum amounts of water.

PSW believes it possesses all the necessary permits to obtain its supply of water from all of the sources described above. The minimum safe yield of all sources of supply described above, based on low stream flows of record with respect to surface supplies, is as follows:

Surface supplies	119.3 mgd
Wells	23.7
Purchased supplies	8.5

Total	151.5 mgd
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During periods of normal precipitation, the water available is more than the minimum shown above. Under normal operating conditions, PSW can deliver a maximum of 175.9 mgd to its distribution system for short periods of time. The average daily sendout for 1998, 1997 and 1996 was 108.8, 103.8 and 94.2 mgd, respectively.

The maximum demand ever placed upon PSW's facilities for one month occurred during August 1998, when sendout averaged 121.7 mgd. The peak day of record occurred during July 1997 when water use reached 142.5 mgd.

Actual water usage (as measured by the water meters installed at each service location) is less than the amount of water delivered into the system due to leaks, PSW's operational use of water, fire hydrant usage and other similar uses. Water consumption per customer is affected by local weather conditions during the year. In general, during the late spring and summer, an increase in rainfall reduces water consumption, while extended periods of dry weather increases consumption. Also, an increase in the average temperature generally

causes an increase in water consumption.

Energy supplies. PSW does all of its pumping using electric power and energy supplies have been sufficient to meet PSW's customer demand. In December 1996, the Governor of Pennsylvania signed into law the Electricity Generation Customer Choice and Competition Act ("Electric Act") which provides for the restructuring of the electric utility industry in Pennsylvania. The Electric Act requires the unbundling of electric services into separate generation, transmission and distribution services with open competition for generation. PSW has negotiated an electric supply contract with a provider and believes that the provider has the resources and supply adequate to meet PSW's demand.

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Item 1, Continued

Adequacy of water supplies. The Delaware River Basin, which is the drainage area of the Delaware River from New York State to Delaware, periodically experiences water shortages, particularly during the summer months. To the extent that the reservoirs in the upper part of the Basin are affected by a lack of precipitation, the Delaware River Basin Commission (the "DRBC") may impose either voluntary or mandatory water use restrictions on portions or all of the Basin. The Commonwealth of Pennsylvania (the "Commonwealth") also has the authority to impose similar restrictions on a county-by-county basis.

PSW's raw water supplies have been adequate to meet customer demand for the past five years principally because of its six impounding reservoirs. However, PSW's customers may be required to comply with the Commonwealth and DRBC water use restrictions, even if PSW's supplies are adequate.

In December 1998 and October 1997, the DRBC issued drought warnings for the Delaware River Basin which includes PSW's service territory. The DRBC lifted the drought warnings in February 1999 and January 1998, respectively. Under a drought warning, the DRBC asks for voluntary restrictions on water use, particularly non-essential uses of water. In September 1995, the Governor of the Commonwealth declared a drought emergency in the counties served by PSW. The drought emergency imposed a mandatory ban on all nonessential water usage by PSW's customers. The drought emergency was lifted by the end of 1995. Because these actions were issued at times other than the summer months, when nonessential and recreational use of water has traditionally declined, the restrictions did not have a significant impact on PSW revenues. Throughout the drought warnings and drought emergency described above, PSW maintained adequate storage levels of treated water and had sufficient quantities of raw water. No other drought restrictions were imposed by the Commonwealth or DRBC in the preceding five years.

Regulation by the Pennsylvania Public Utility Commission. PSW is subject to regulation by the Pennsylvania Public Utility Commission ("PUC") which has jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters.

Under applicable Pennsylvania statutes, PSW has rights granted under its Articles of Incorporation and by certificates of public convenience from the PUC authorizing it to conduct its present operations in the manner in which such operations are now conducted and in the territory in which it now renders service, to exercise the right of eminent domain and to maintain its mains in the streets and highways of such territory. Such rights are generally nonexclusive, although it has been the practice of the PUC to allow only one water company to actually provide service to a given area. Consequently, PSW has been subject to competition only with respect to potential customers who also may have access to the service of another water supplier, wells, or where other water service opportunities exist (including non-utility companies with riparian rights or access to an adequate supply from a neighboring facility).

In 1993, the PUC initiated a rulemaking procedure intended to facilitate the development of practical standards by which water mains should be extended to "bona fide service applicants", typically existing homes or businesses in need of a reliable public water supply. In December 1995, the PUC issued a final rulemaking, reflecting the position that the primary costs of such extensions should be supported by anticipated revenues and borne by the utility. Generally, construction costs beyond those supported by anticipated revenues must be borne by the applicant. The formula used to determine a utility's investment requires that revenues from the bona fide service applicant offset the interest,

depreciation and incremental operating expense associated with the investment. Under the rule, PSW is required to invest \$4,000 per bona fide service applicant in a main extension prior to requiring any customer contribution.

In 1996, the PUC approved a mechanism, the Distribution System Improvement Charge ("DSIC"), which allows Pennsylvania water utilities to add a surcharge to their water bills to offset the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating distribution systems. The DSIC mechanism is intended to eliminate many of the disincentives faced by water utilities in rehabilitating their distribution systems. These disincentives, often referred to as regulatory lag, are due to the rate making process which, prior to the establishment of the DSIC mechanism, required water utilities to absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The DSIC may be adjusted quarterly based on additional qualified capital expenditures made in the previous quarter, but may never exceed 5% of the base rates in effect. The PUC limits use of the DSIC to periods when a company's return on equity is less than a benchmark it establishes each quarter. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective.

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Item 1, Continued

Water Quality & Environmental Issues. PSW is subject to regulation of water quality by the U.S. Environmental Protection Agency ("EPA") under the Federal Safe Drinking Water Act (the "SDWA") and by the Pennsylvania Department of Environmental Protection ("DEP") under the Pennsylvania Safe Drinking Water Act. The SDWA provides for the establishment of minimum water quality standards, as well as governmental authority to specify the type of treatment process to be used for public drinking water. PSW is presently in compliance with all current standards and treatment requirements promulgated to date.

The EPA has an ongoing directive to issue additional regulations under the SDWA. The directive was clarified in 1986 when Congress amended the SDWA to require, among other revisions, disinfection of all drinking water, additional maximum contaminant level ("MCL") specifications, and filtration of all surface water supplies. PSW has already installed the necessary equipment to provide for the disinfection of the drinking water throughout the system and is monitoring for the additional specified contaminants. All PSW's surface water supplies are filtered.

On August 6, 1996, the President signed into law the reauthorization of the SDWA. The new Act places a greater emphasis on the cost/benefit of regulating additional substances by requiring definitive research on the impact of such regulations. The reauthorized SDWA focuses regulations on contaminants known to be of public health concern based on occurrence, health risks and cost benefit considerations. The new Act eliminated the previous requirement of the 1986 SDWA Amendments that had required the EPA to promulgate MCL's for many chemicals not previously regulated and mandated further MCL's every three years. The new Act also specifies that the EPA shall study radon, arsenic and sulfates and propose respective rulemakings in 1999, 2000 and 2001 if these chemicals are deemed to be a threat to public health. The reauthorized SDWA is not expected to have a material impact on PSW's operations or financial condition. PSW may, in the future, have to change its method of treating drinking water at certain of its sources of supply if additional regulations become effective.

In 1991, EPA promulgated final regulations for lead and copper (the "Lead and Copper Rule"). Under the Lead and Copper Rule, large water utilities are required to conduct corrosion control studies and to sample certain high-risk customer homes to determine the extent of treatment techniques that may be required. PSW conducted the two required rounds of sampling in 1992 and again in 1997. The results of both studies did not exceed the EPA action levels for either lead or copper. Additional sampling will be required in the future. PSW has developed a corrosion control program for its surface sources of supply and does not foresee the need to make any major additional treatment changes or capital expenditures as a result of the Lead and Copper Rule.

On January 1, 1993, federal regulations ("Phase II") became effective for certain volatile organics, herbicides, pesticides and inorganic parameters. All required Phase II monitoring was completed in 1995. In the few cases where Phase

II contaminants were detected, concentrations were below MCL's. Future monitoring will be required, but no major treatment modifications are anticipated as a result of these regulations.

In May 1996, the EPA issued the first rule of a three-rule package addressing Disinfection By-Products ("DBP") and monitoring of disease-causing micro-organisms. DBP's are chemicals formed during the drinking water treatment process. The first rule is an Information Collection Rule ("ICR") designed to collect data to be used in developing further rules. As required, PSW began sampling under the requirements of the ICR in July 1997 and completed the ICR phase in December 1998. Studies by the EPA on the data collected may result in new treatment standards and processes. In December 1998, the EPA issued additional rules concerning DBP and PSW meets the requirements of these new rules.

PSW is also subject to other environmental statutes administered by the EPA and DEP. These include the Federal Clean Water Act ("FCWA") and the Resource Conservation and Recovery Act ("RCRA"). Under the FCWA, the Company must obtain National Pollutant Discharge Elimination System ("NPDES") permits for discharges from its water treatment stations. PSW currently maintains six NPDES permits relating to its water treatment plants, which are subject to renewal every five years. PSW presently meets all NPDES requirements. Although management recognizes that permit renewal may become more difficult if more stringent guidelines are imposed, no significant obstacles to permit renewal are presently foreseen.

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Item 1, Continued

Under RCRA, PSW is subject to specific regulations regarding the solid waste generated from the water treatment process. The DEP promulgated a "Final Rulemaking" for solid waste (Residual Waste Management) in July 1992. PSW' obtained the permits for its three residual waste disposal sites in accordance with regulatory requirements. The terms of the permits are for a period of ten years and the renewals are due in 2008.

PSW operates the Little Washington Wastewater Company ("LWW"), a wastewater utility which serves approximately 500 customers in two service territories that are located within the service territory of PSW. LWW is subject to regulation by the EPA and DEP, and is subject to environmental statutes, including FCWA and RCRA. LWW currently maintains permits for its wastewater treatment stations in accordance with FCWA and is presently in compliance with all standards and treatment requirements promulgated to date.

Where PSW is required to make certain capital investments in order to maintain its compliance with any of the various regulations discussed above, it is management's belief that all such expenditures would be fully recoverable in PSW's rates. However, under current law, such capital investments would have to be financed prior to their inclusion in PSW's rate structure, and the resulting rate increases would not necessarily be timely.

Year 2000

Overview

The Company is actively pursuing a Year 2000 Program (the "Program"). The objective of the Program is to provide reasonable assurance 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; (iv) testing the remediation measures that are implemented; and (v) 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 for the 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

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 was completed in November 1998. An assessment of Year 2000 issues for the Company's critical systems was completed in December 1998. As a result of the assessment, it was determined that none of the internal systems and processes directly related to the treatment and distribution of water to its customers would be significantly affected by the Year 2000 issue. Some financial and office systems may be affected and the remediation or replacement and testing of these systems has started. It is anticipated that remediation or replacement and testing of these systems will be completed by mid-1999.

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 1998 revenues, approximately 65% of the Company's revenues are from residential customers, 21% from commercial customers (consisting primarily of apartments, colleges,

Item 1, Continued

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 1998 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 1998 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 \$3,200,000 which includes the costs to develop 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 \$1,500,000 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 primarily 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 key 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 or vender relationships 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 for its mission critical systems 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 the "Forward-looking Statements" section "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Employee Relations

As of December 31, 1998, the Registrant employed a total of 542 full-time persons. Hourly employees of PSW are represented by the International Brotherhood of Firemen and Oilers, Local No. 473. The contract with the union expires on December 1, 2001. Management considers its employee relations to be good.

Item 2. Properties.

The Registrant believes that the facilities used in the operation of its business are in good condition in terms of suitability, adequacy and utilization.

The property of PSW consists of a waterworks system devoted to the collection, storage, treatment and distribution of water in its service territory. Management considers that its properties are maintained in good operating condition and in accordance with current standards of good waterworks practice. The following table summarizes the principal physical properties owned by PSW:

Location	No. of Buildings	Description	Square Feet Floor Area
Pennsylvania	7	Office & warehouse	179,413
Pennsylvania	19	Pumping stations and treatment buildings	235,200
Pennsylvania	23	Well stations	Approx. 600 ea.
Pennsylvania	38	Well stations	Approx. 150 ea.
Pennsylvania	52	Booster stations	Approx. 1,100 ea.

In addition, PSW also owns 77 storage facilities for treated water throughout its service territory with a combined capacity of 167.54 million gallons and six surface water impounding reservoirs. The water utility also owns approximately 3,523 miles of transmission and distribution mains, has 299,850 active metered services and 14,388 fire hydrants.

PSW's properties referred to herein, with certain minor exceptions which do not materially interfere with their use, are owned by PSW and are subject to the

lien of an Indenture of Mortgage dated as of January 1, 1941, as supplemented. In the case of properties acquired through the exercise of the power of eminent domain and certain properties acquired through purchase, it has title only for water supply purposes.

The Registrant's corporate offices are leased from PSW and located in Bryn Mawr, Pennsylvania.

Item 3. Legal Proceedings

There are various legal proceedings in which the Company is involved. Although the results of legal proceedings cannot be predicted with certainty, 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.

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Item 4. Submission of Matters to a Vote of Security Holders

Information with respect to the executive officers of the Company is contained in Item 10 hereof and is hereby incorporated by reference herein.

Results of Vote of Security Holders

The Special Meeting of Shareholders of PSC was held on November 16, 1998 at the headquarters of the Company, 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania, pursuant to the Notice sent on or about October 2, 1998 to all shareholders of record at the close of business on September 18, 1998. At that meeting, the shareholders were asked to act upon the following proposals:

1. Approval of the Amended and Restated Agreement and Plan of Merger, dated as of August 5, 1998 (the "Merger Agreement"), by and among PSC, Consumers Acquisition Company ("Acquisition") and Consumers Water Company ("Consumers"), providing for the merger of Consumers with and into Acquisition, a wholly-owned subsidiary of PSC.

For -----	Against -----	Abstentions -----
20,029,416	188,612	177,946

2. Approval of an amendment to PSC's Articles of Incorporation increasing the authorized shares of PSC common stock, par value \$.50 per share from 40,000,000 to 100,000,000.

For -----	Against -----	Abstentions -----
18,675,085	1,511,642	209,247

3. Approval of an amendment to PSC's 1994 Equity Compensation Plan (the "Equity Compensation Plan") to increase from 1,900,000 to 2,900,000, the aggregate authorized shares of the PSC Common Stock that may be issued or transferred under the Equity Compensation Plan and to adopt certain other amendments to the terms of the Equity Compensation Plan necessary for the issuance of options to holders of options to purchase Consumers Common Stock pursuant to the Merger Agreement.

For -----	Against -----	Abstentions -----
18,620,728	1,357,866	417,380

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PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 11, 1999, there were approximately

20,642 holders of record of the Company's common stock.

The following selected quarterly financial data of the Company is in thousands of dollars, except for per share amounts:

	First	Second	Third	Fourth	Total Year

1998	-----				
Operating revenues	\$34,276	\$37,341	\$41,656	\$37,704	\$ 150,977
Operations and maintenance	13,668	14,020	14,714	15,772	58,174
Net income available to common stock	5,706	7,435	9,022	6,461	28,624
Basic net income per common share	0.21	0.27	0.33	0.23	1.04
Diluted net income per common share	0.21	0.27	0.32	0.23	1.03
Dividend paid per common share	0.1625	0.1625	0.1700	0.1700	0.6650
Price range of common stock					
- high	25.75	22.56	28.19	30.06	30.06
- low	19.56	18.88	20.50	23.00	18.88

1997	-----				
Operating revenues	\$31,021	\$33,315	\$36,754	\$35,081	\$ 136,171
Operations and maintenance	13,068	13,295	14,466	15,070	55,899
Net income available to common stock	4,460	5,778	7,323	5,432	22,993
Basic net income per common share	0.17	0.23	0.28	0.21	0.89
Diluted net income per common share	0.17	0.22	0.28	0.21	0.88
Dividend paid per common share	0.152	0.152	0.159	0.159	0.622
Price range of common stock					
- high	15.47	15.10	18.00	22.18	22.18
- low	11.72	11.44	14.07	15.10	11.44

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape.

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Item 5, Continued

Following is a recent history of income from continuing operations and common dividends of the Company:

	Cash dividend per common share	Basic income per share from continuing operations	Dividend payout ratio
1994	\$ 0.55	\$ 0.68	81%
1995	0.57	0.75	76%
1996	0.59	0.79	75%
1997	0.62	0.89	70%
1998	0.67	1.04	64%

Dividends have averaged approximately 72% of income from continuing operations during this period. In 1998, the dividend rate increased by 4.6%. As a result, beginning with the dividend payable in September 1998, the annual dividend rate increased to \$.68 per share.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of the Company's 1998 Annual Report to Shareholders filed as Exhibit 13.6 to this Form 10-K Report is incorporated by reference herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information appearing in the section captioned "Management's Discussion and Analysis" from the portions of the Company's 1998 Annual Report to Shareholders filed as Exhibit 13.6 to this Form 10-K Report is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" "Consolidated Statements of Capitalization" and "Notes to Consolidated Financial Statements" from the portions of the Company's 1998 Annual Report to Shareholders filed as Exhibit 13.6 to this Form 10-K Report is incorporated by reference herein. Also, the information appearing in the section captioned "Reports on Financial Statements" from the portions of the Company's 1998 Annual Report to Shareholders filed as Exhibit 13.6 to this Form 10-K Report is incorporated by reference herein.

Item 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the section captioned "Information Regarding Nominees and Directors" of the Proxy Statement relating to the May 20, 1999, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Executive Officers of the Registrant

The following table and the notes thereto set forth information with respect to the executive officers of the Registrant, including their names, ages, positions with the Registrant and business experience during the last five years:

Name	Age	Position with the Registrant and date of election (1)
Nicholas DeBenedictis	53	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Philadelphia Suburban Water Company (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Morrison Coulter	62	President, Philadelphia Suburban Water Company (January 1999 to present); Senior Vice President - Production, Philadelphia Suburban Water Company (February 1996 to January 1999); Vice President - Production, Philadelphia Suburban Water Company (April 1989 to February 1996) (3)
Richard R. Riegler	52	Senior Vice President - Engineering and Environmental Affairs (January 1999 to present); Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to January 1999) (4)
Roy H. Stahl	46	Senior Vice President and General Counsel (April 1991 to present) (5)
Michael P. Graham	50	Senior Vice President - Finance and Treasurer (March 1993 to present) (6)

(1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the

Registrant. Officers serve at the discretion of the Board of Directors.

- (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.
- (3) Mr. Coulter was Superintendent of Pumping Facilities from 1971 to 1982. From 1982 to 1987 he served as Manager - Electrical/Mechanical Department and from 1987 to 1989 he was Assistant Vice President Production.
- (4) Mr. Riegler was Chief Engineer of Philadelphia Suburban Water Company from 1982 to 1984. He then served as Vice President and Chief Engineer from 1984 to 1986 and Vice President of Operations from 1986 to 1989.

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Item 10, Continued

- (5) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President - Administration and Corporate Counsel of the Registrant, and from May 1988 to April 1991 he was Vice President and General Counsel of the Registrant.
- (6) Mr. Graham was Controller of the Company from 1984 to September 1990, and from September 1990 to May 1991 he was Chief Financial Officer and Treasurer. From May 1991 to March 1993, Mr. Graham was Vice President Finance and Treasurer.

Item 11. Executive Compensation

The information appearing in the sections captioned "Executive Compensation" of the Proxy Statement relating to the May 20, 1999, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Ownership of Common Stock" of the Proxy Statement relating to the May 20, 1999, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Certain Relationships and Related Transactions" of the Proxy Statement relating to the May 20 1999, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Financial Statements. The following is a list of the consolidated financial statements of the Company and its subsidiaries and supplementary data incorporated by reference in Item 8 hereof:

Management's Report

Independent Auditors' Report

Consolidated Balance Sheets - December 31, 1998 and 1997

Consolidated Statements of Income - 1998, 1997 and 1996

Consolidated Statements of Cash Flow - 1998, 1997, and 1996

Consolidated Statements of Capitalization - December 31, 1998 and 1997

Notes to Consolidated Financial Statements

Financial Statement Schedules. The financial statement schedules, or supplemental schedules, filed as part of this annual report on Form 10-K are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

Reports on Form 8-K.

Current Report on Form 8-K filed on November 18, 1998, responding to Item 5, Other Events. (Related to the November 16, 1998 Special Meeting of the Company's Shareholders pursuant to the Notice sent on or about October 2, 1998 to all shareholders of record at the close of business on September 18, 1998 concerning the approval of three proposals, including the approval of the merger with Consumers).

Current Report on Form 8-K filed on March 12, 1999, responding to Item 2, Acquisition or Disposition of Assets; Item 5, Other Events; and Item 7, Financial Statements and Exhibits. (Related to the March 10, 1999 consummation of the previously announced agreement to merge Consumers Water Company with and into a wholly-owned subsidiary of PSC).

Exhibits, Including Those Incorporated by Reference. The following is a list of exhibits filed as part of this annual report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses. The page numbers listed refer to page numbers where such exhibits are located using the sequential numbering system specified by Rules 0-3 and 403.

EXHIBIT INDEX

Exhibit No.		Page No.
- - - - -		- - - - -
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	-
3.2	By-Laws, as amended (17) (Exhibit 3.2)	-
3.3	Amendment to Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares to 41,770,819 and to provide that 40,000,000 of such shares be shares of Common Stock (17) (Exhibit 3.3)	-
3.4	Amendment to Amended and Restated Articles of Incorporation, as amended, designating the Series B Preferred Stock (17) (Exhibit 3.4)	-
3.5	Amendment to Section 3.03 and addition of Section 3.17 to Bylaws (19) (Exhibits 1 and 2)	-
3.6	Amendment to Amended and Restated Articles of Incorporation, designating the terms of the Series A Junior Participating Preferred Shares (21) (Exhibit 3.6)	-
3.7	Amendment to Amended and Restated Articles of Incorporation, to increase the number of authorized shares to 101,770,819 and to provide that 100,000,000 of such shares be shares of Common Stock (23) (Annex E)	-
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting	-

Annuities (now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)

4.2	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank (East) National Association dated as of February 16, 1990 (3) (Exhibit 4.3)	-
4.3	First Amendment to Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank N.A. dated as of September 1, 1992 (1) (Exhibit 4.3)	-
4.4	Preferred Stock Agreement between Philadelphia Suburban Water Company and Provident Life and Accident Insurance Company dated as of January 1, 1991 (3) (Exhibit 4.4)	-
4.5	Indenture dated as of July 1, 1988 between Philadelphia Suburban Corporation and the Philadelphia National Bank, as Trustee. (4) (Exhibit 4)	-
4.6	Form of Rights Agreement, dated as of February 19, 1988, between Philadelphia Suburban Corporation and Mellon Bank (East) National Association, as amended by Amendment No. 1. (5) (Exhibit 1)	-
4.7	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)	-
4.8	Twenty-first Supplemental Indenture dated as of August 1, 1985 (6) (Exhibit 4.2)	-

EXHIBIT INDEX, Continued

Exhibit No. - -----		Page No. -----
4.9	Twenty-second Supplemental Indenture dated as of April 1, 1986 (7) (Exhibit 4.3)	-
4.10	Twenty-third Supplemental Indenture dated as of April 1, 1987 (8) (Exhibit 4.4)	-
4.11	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (9) (Exhibit 4.5)	-
4.12	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (10) (Exhibit 4.6)	-
4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	-
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	-
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (12) (Exhibit 4.15)	-
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A. and CoreStates Bank, N.A. dated as of March 17, 1994 (12) (Exhibit 4.16)	-
4.17	Twenty-Ninth Supplemental Indenture dated as of March 30, 1995 (14) (Exhibit 4.17)	-
4.18	Thirtieth Supplemental Indenture dated as of August 15, 1995 (15) (Exhibit 4.18)	-
4.19	First Amendment to Revolving Credit Agreement dated as of May 22, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A., Meridian Bank, N.A. dated as of March 17,	-

1994 (17) (Exhibit 4.19)

4.20	Second Amendment to Revolving Credit Agreement dated as of July 21, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A., Meridian Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.20)	-
4.21	Third Amendment to Revolving Credit Agreement dated as of December 20, 1996, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A., CoreStates Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.21)	-
4.22	Thirty-First Supplemental Indenture dated as of July 1, 1997 (18) (Exhibit 4.22)	-
4.23	Fourth Amendment to Revolving Credit Agreement dated as of January 15, 1998, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A., and CoreStates Bank, N.A. dated as of March 17, 1994 (21) (Exhibit 4.23)	-

EXHIBIT INDEX, Continued

Exhibit No. - - - - -		Page No. - - - - -
4.24	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (20) (Exhibit 1)	-
4.25	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and BankBoston, N.A., as Rights Agent	25
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	-
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	-
10.3	Executive Incentive Award Plan, as amended March 21, 1989 and February 6, 1990* (10) (Exhibit 10.3)	-
10.4	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (10) (Exhibit 10.4)	-
10.5	Supplemental Executive Retirement Plan, effective December 1, 1989* (10) (Exhibit 10.5)	-
10.6	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)	-
10.7	1993 Incentive Compensation Plan* (1) (Exhibit 10.7)	-
10.8	Employment letter agreement with Mr. Nicholas DeBenedictis* (1) (Exhibit 10.8)	-
10.9	1994 Incentive Compensation Program* (12) (Exhibit 10.9)	-
10.10	1994 Equity Compensation Plan, as amended by Amendment 1994-1* (16) (Exhibit 10.10)	-
10.11	1995 Incentive Compensation Plan* (13) (Exhibit 10.11)	-
10.12	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (14) (Exhibit 10.12)	-
10.13	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (15) (Exhibit 10.13)	-

10.14	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (15) (Exhibit 10.14)	-
10.15	1996 Annual Cash Incentive Compensation Plan* (16) (Exhibit 13.4)	-
10.16	Amendment 1994-2 to 1994 Equity Compensation Plan, as amended* (17) (Exhibit 10.16)	-
10.17	1997 Annual Cash Incentive Compensation Plan* (17) (Exhibit 10.17)	-
10.18	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997* (17) (Exhibit 10.18)	-

EXHIBIT INDEX, Continued

Exhibit No. - - - - -	Page No. - - - - -	
10.19	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (17) (Exhibit 10.19)	-
10.20	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Michael P. Graham, dated as of January 1, 1997* (17) (Exhibit 10.20)	-
10.21	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (17) (Exhibit 10.21)	-
10.22	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (17) (Exhibit 10.22)	-
10.23	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (17) (Exhibit 10.23)	-
10.24	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (17) (Exhibit 10.24)	-
10.25	First Amendment to Supplemental Executive Retirement Plan* (17) (Exhibit 10.25)	-
10.26	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSBC Securities, Inc., and PaineWebber Incorporated (18) (Exhibit 10.26)	-
10.27	1998 Annual Cash Incentive Compensation Plan* (21) (Exhibit 10.27)	-
10.28	Philadelphia Suburban Corporation Director Deferral Plan*	83
10.29	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997*	90
10.30	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997*	91
10.31	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Michael P. Graham,	92

dated as of January 1, 1997*

10.32	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997*	93
10.33	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997*	94

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EXHIBIT INDEX, Continued

Exhibit No. - - - - -		Page No. - - - - -
10.34	1999 Annual Cash Incentive Compensation Plan*	95
10.35	The Philadelphia Suburban Corporation 1994 Equity Compensation Plan (as Amended and Restated Effective March 3, 1998)* (22) (Exhibit A)	-
10.36	Amendment 1998-1 to The Philadelphia Suburban Corporation 1994 Equity Compensation Plan* (23) (Annex F)	-
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 1993 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993 (12) (Exhibit 13.1)	-
13.2	Selected portions of Annual Report to Shareholders for the year ended December 31, 1994 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1994 (13) (Exhibit 13.2)	-
13.3	Selected portions of Annual Report to Shareholders for the year ended December 31, 1995 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1995 (16) (Exhibit 13.3)	-
13.4	Selected portions of Annual Report to Shareholders for the year ended December 31, 1996 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1996 (17) (Exhibit 13.4)	-
13.5	Selected portions of Annual Report to Shareholders for the year ended December 31, 1997 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1997 (21) (Exhibit 13.5)	-
13.6	Selected portions of Annual Report to Shareholders for the year ended December 31, 1998 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1998	100
21.	Subsidiaries of Philadelphia Suburban Corporation	143
23.	Consent of Independent Auditors	144
24.	Power of Attorney (set forth as a part of this report)	23
27.	Financial Data Schedule	145

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- Notes -

Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992.
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1990.
- (4) Filed as Exhibit 4 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on June 14, 1988.
- (5) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1988, with respect to the New York Stock Exchange, and on November 9, 1988, with respect to the Philadelphia Stock Exchange.
- (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.
- (8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.
- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (12) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1994.
- (14) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (16) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1995.
- (17) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (18) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (19) Filed as an Exhibit to Form 8-K filed August 7, 1997.
- (20) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed on March 17, 1998.
- (21) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1997.
- (22) Filed as Exhibit A to definitive Proxy Statement dated April 7, 1998.
- (23) Filed as an Annex to Registration Statement on Form S-4 filed on September 11, 1998.

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

PHILADELPHIA SUBURBAN CORPORATION

By /s/ Nicholas DeBenedictis

 Nicholas DeBenedictis
 President and Chairman

Date: March 29, 1999

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Each person in so signing also makes, constitutes and appoints Nicholas DeBenedictis, President and Chairman of Philadelphia Suburban Corporation, Michael P. Graham, Senior Vice President - Finance and Treasurer of Philadelphia Suburban Corporation, and each of them, his or her true and lawful attorneys-in-fact, in his or her name, place and stead to execute and cause to be filed with the Securities and Exchange Commission any and all amendments to this report.

/s/ Mary C. Carroll

 Mary C. Carroll
 Director

/s/ Nicholas DeBenedictis

 Nicholas DeBenedictis
 President and Chairman
 (principal executive officer)
 and Director

/s/ G. Fred DiBona, Jr.

 G. Fred DiBona, Jr.
 Director

/s/ Richard H. Glanton

 Richard H. Glanton
 Director

/s/ Michael P. Graham

 Michael P. Graham
 Senior Vice President-Finance and
 Treasurer (principal financial and
 accounting officer)

/s/ Alan Hirsig

 /s/ Alan Hirsig
 Director

/s/ John F. McCaughan

 John F. McCaughan
 Director

/s/ Richard L. Smoot

 Richard L. Smoot
 Director

/s/ Harvey J. Wilson

 Harvey J. Wilson

PHILADELPHIA SUBURBAN CORPORATION

and

BANKBOSTON, N.A.

as Rights Agent

RIGHTS AGREEMENT

Dated as of March 1, 1998

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Exhibit A Resolution of the Board of Directors with respect to
Series A Junior Participating Preferred Shares

Exhibit B Form of Rights Certificate

RIGHTS AGREEMENT

RIGHTS AGREEMENT, dated as of March 1, 1998 (the "Agreement"), between PHILADELPHIA SUBURBAN CORPORATION, a Pennsylvania corporation (the "Company"), and BANKBOSTON, N.A., a national banking banking association (the "Rights Agent").

W I T N E S S E T H

WHEREAS, on February 3, 1998 (the "Rights Dividend Declaration Date"), the Board of Directors of the Company authorized and declared a dividend distribution of one Right for each Common Share (as hereinafter defined) of the Company outstanding at the close of business on March 1, 1998 (the "Record Date") (which for these purposes shall include all Common Shares presently entitled to receive dividends) and has authorized the issuance of one Right (as such number may hereafter be adjusted pursuant to the provisions of Section 11(i) hereof) for each Common Share of the Company issued between the Record

Date (whether originally issued or delivered from the Company's treasury) and the Distribution Date (as hereinafter defined), each Right initially representing the right to purchase one one-thousandth of a Preferred Share (as hereinafter defined) of the Company having the rights, powers and preferences set forth in the form of the Resolution of the Board of Directors attached hereto as Exhibit A, upon the terms and subject to the conditions hereinafter set forth (the "Rights"); and

WHEREAS, the Rights will be held by the Rights Agent under this Agreement as trustee for the shareholders of the Company until the Distribution Date; and

WHEREAS, the Board of Directors of the Company has considered whether approval of this Agreement and the distribution of the Rights is in the best interests of the Company and all other pertinent factors; and

WHEREAS, the Board of Directors of the Company has concluded that approval of this Agreement and the distribution of the Rights is in the best interests of the Company because the existence of the Rights will help (i) reduce the risk of coercive two-tiered, front-end loaded or partial offers that may not offer fair value to all shareholders, (ii) mitigate against market accumulators who through open market and/or private purchases may achieve a position of substantial influence or control without paying to selling or remaining shareholders a fair control premium, (iii) deter market accumulators who are simply interested in putting the Company into "play," (iv) restrict self-dealing by a substantial shareholder, and (v) preserve the Board of Directors' bargaining power and flexibility to deal with third-party acquirors, to pursue the business strategies of the Company and to otherwise seek to maximize values for all shareholders.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, and intending to be legally bound hereby, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

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(a) "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 20% or more of the Common Shares then outstanding, but shall not include the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan. Notwithstanding the foregoing, no Person shall become an "Acquiring Person" as the result of an acquisition of Common Shares by the Company which, by reducing the number of Common Shares outstanding, increases the proportionate number of Common Shares beneficially owned by such Person to 20% or more of the Common Shares then outstanding; provided, however, that if a Person shall become the Beneficial Owner of 20% or more of the then outstanding Common Shares by reason of Common Shares purchased by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares, then such Person shall be deemed to be an "Acquiring Person." Notwithstanding the foregoing, if a majority of the Continuing Directors then in office determines in good faith that a Person who would otherwise be an "Acquiring Person", as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an Acquiring Person, as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be an "Acquiring Person" for purposes of this Agreement.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended and in effect on the date hereof (the "Exchange Act").

(c) A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

(i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any

agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," (A) securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange, or (B) securities issuable upon exercise of Rights at any time prior to the occurrence of a Triggering Event, or (C) securities issuable upon exercise of Rights from and after the occurrence of a Triggering Event which Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Section 3(a) or Section 22 hereof (the "Original Rights") or pursuant to Section 11(i) hereof in connection with an adjustment made with respect to any Original Rights;

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(ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subparagraph (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not also then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing), for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to subparagraph (ii) of this paragraph (c)) or disposing of any voting securities of the Company,

provided, however, that nothing in this paragraph (c) shall cause a person engaged in business as an underwriter of securities to be the "Beneficial Owner" of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in The Commonwealth of Massachusetts or the Commonwealth of Pennsylvania are authorized or obligated by law or executive order to close.

(e) "Close of Business" on any given date shall mean 5:00 P.M., Eastern time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., Eastern time, on the next succeeding Business Day.

(f) "Common Share" shall mean, when used with reference to the Company, a share of common stock, par value \$.50 per share, of the Company and, to the extent that there are not a sufficient number of Common Shares authorized to permit the full exercise of the Rights, shares of any other class or series of the Company designated for such purpose containing terms substantially similar to the terms of the Common Shares, except that "Common

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Share" when used with reference to any Person other than the Company shall mean the shares of common stock of such Person with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such Person.

(g) "Continuing Director" shall mean (i) any member of the Board of Directors of the Company, while such Person is a member of such Board, who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, and was a member of such Board prior to the date of this Agreement, or (ii) any Person who subsequently becomes a member of the Board, while such Person is a member of such Board, who is not an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or a representative of an Acquiring Person or of any such Affiliate or Associate, if such Person's nomination for election or election to the Board is recommended or approved by a majority of the Continuing Directors.

(h) "Distribution Date" shall have the meaning set forth in Section 3 hereof.

(i) "Expiration Date" shall have the meaning set forth in Section 7(a) hereof.

(j) "Person" shall mean any individual, firm, corporation, partnership, limited liability company or other entity.

(k) "Preferred Share" shall mean a share of Series A Junior Participating Preferred Shares, par value \$1.00 per share, of the Company and, to the extent that there are not a sufficient number of shares of Series A Junior Participating Preferred Shares authorized to permit the full exercise of the Rights, shares of any other series of Series Preferred Stock of the Company designated for such purpose containing terms substantially similar to the terms of the Series A Junior Participating Preferred Shares.

(l) "Preferred Share Fraction" shall mean one one-thousandth of a Preferred Share.

(m) "Section 11(a)(ii) Event" shall mean any event described in Section 11(a)(ii) (A), (B) or (C) hereof.

(n) "Section 13 Event" shall mean any event described in clauses (x), (y) or (z) of Section 13(a) hereof.

(o) "Stock Acquisition Date" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such.

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(p) "Subsidiary" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

(q) "Trading Day" shall have the meaning set forth in Section 11(d)(i) hereof.

(r) "Triggering Event" shall mean any Section 11(a)(ii) Event or any Section 13 Event.

Unless otherwise specified, where reference is made in this Agreement to sections of, and the General Rules and Regulations under, the Exchange Act, such reference shall mean such sections and rules as amended from time to time and any successor provisions thereto.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agents as it may deem necessary or desirable, upon ten (10) days= prior written notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and shall in no event be liable for, the acts or omissions of any such co-Rights Agent.

Section 3. Issue of Rights Certificates.

(a) Until the earlier of (i) the Close of Business on the tenth Business Day after a Stock Acquisition Date involving an Acquiring Person that has become such in a transaction as to which the Board of Directors has not made the determination referred to in Section 11(a)(ii)(B) hereof, or (ii) within ten

(10) Business Days (or such later date as may be determined by action of the Board of Directors prior to such time any Person becomes an Acquiring Person) after the date that a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan) is first published or sent or given within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act, if upon consummation thereof, such Person would be the Beneficial Owner of 20% or more of the Common Shares then outstanding (the earlier of (i) and (ii) being herein referred to as the "Distribution Date"), (x) beneficial interests in the Rights will be evidenced (subject to the provisions of paragraph (b) of this Section 3) by the certificates for the Common Shares registered in the names of the holders of the Common Shares (which certificates for Common

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Shares shall be deemed also to be certificates for beneficial interests in the Rights) and not by separate certificates, and (y) the Rights and beneficial interests therein will be transferable only in connection with the transfer of the underlying Common Shares (including a transfer to the Company). The Company must promptly notify the Rights Agent of such Distribution Date and request that its transfer agent provide the Rights Agent with a list of the record holders of the Company's Common Shares as of the close of business on the Distribution Date. As soon as practicable after the Rights Agent receives such notice and list, the Rights Agent will send by first-class, postage prepaid mail, to each record holder of the Common Shares as of the close of business on the Distribution Date, at the address of such holder shown on the records of the Company, one or more rights certificates, in substantially the form of Exhibit B hereto (the "Rights Certificates"), evidencing one Right for each Common Share so held, subject to adjustment as provided herein. In the event that an adjustment in the number of Rights per Common Share has been made pursuant to Section 11(p) hereof, at the time of distribution of the Rights Certificates, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of and after the Distribution Date, the Rights will be evidenced solely by such Rights Certificates.

(b) With respect to certificates for the Common Shares outstanding as of the Record Date, until the Distribution Date, the registered holders of the Common Shares shall also be the registered holders of the beneficial interests in the associated Rights. Until the earlier of the Distribution Date or the Expiration Date (as such term is defined in Section 7 hereof), the transfer of any certificates representing Common Shares in respect of which Rights have been issued shall also constitute the transfer of the Rights associated with such Common Shares. Certificates issued after the Record Date upon the transfer of Common Shares outstanding on the Record Date shall bear the legend set forth in subsection (c).

(c) Except as provided in Section 22 hereof, Rights shall be issued in respect of all Common Shares that are issued (whether originally issued or delivered from the Company's treasury) after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date. Certificates representing such Common Shares shall also be deemed to be certificates for beneficial interests in the associated Rights, and shall bear the following legend:

"This certificate also evidences a beneficial interest in and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between Philadelphia Suburban Corporation (the "Company") and BankBoston, N.A. (the "Rights Agent") dated as of March 1, 1998 (the "Rights Agreement"), and as the same may be amended from time to time, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and beneficial

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interests therein will no longer be evidenced by this certificate. The

Company will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void."

With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, beneficial interests in the Rights associated with the Common Shares represented by such certificates shall be evidenced by such certificates alone and registered holders of Common Shares shall also be the registered holders of beneficial interests in the associated Rights, and the transfer of any of such certificates shall also constitute the transfer of beneficial interests in the Rights associated with the Common Shares represented by such certificates.

Section 4. Form of Rights Certificates.

(a) The Rights Certificates (and the forms of election to purchase and of assignment to be printed on the reverse thereof) shall each be substantially in the form set forth in Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate (which do not affect the duties or responsibilities of the Rights Agent) and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or the Nasdaq Stock Market on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever distributed, shall entitle the holders thereof to purchase such number of Preferred Share Fractions as shall be set forth therein at the price set forth therein (such exercise price per Preferred Share Fraction, the "Purchase Price"), but the amount and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(a) or Section 22 hereof that represents Rights that the Company knows are beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not

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for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing oral or written plan, agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer that the Board of Directors of the Company has determined is part of an oral or written plan, agreement, arrangement or understanding that has as a primary purpose or effect avoidance of Section 7(e) hereof, and provided that the Company shall have notified the Rights Agent that this Section 4(b) applies, any Rights Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

"The Rights represented by this Rights Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement). Accordingly, this Rights Certificate and the Rights represented hereby may become null and void in the circumstances specified in Section 7(e) of such Agreement."

Section 5. Countersignature and Registration.

(a) The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, its President or any Vice President, either

manually or by facsimile signature, and shall have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Rights Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the Person who signed such Rights Certificates had not ceased to be such officer of the Company; and any Rights Certificates may be signed on behalf of the Company by any Person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Agreement any such Person was not such an officer.

(b) Following the Distribution Date and upon receipt by the Rights Agent of the notice and list of recordholders of the Rights referred to in Section 3(a), the Rights Agent will keep or cause to be kept, at its office or offices designated pursuant to Section 25 hereof, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificates, the number of

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Rights evidenced on its face by each of the Rights Certificates, the Certificate number and the date of each of the Rights Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates.

(a) Subject to the provisions of Section 4(b), Section 7(e) and Section 14 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the Expiration Date, any Rights Certificate or Certificates may be transferred, split up, combined or exchanged for another Rights Certificate or Certificates, entitling the registered holder to purchase a like number of Preferred Share Fractions (or, following a Triggering Event, Common Shares or other securities, cash or other assets, as the case may be), as the Rights Certificate or Certificates surrendered then entitled such holder or former holder in the case of a transfer to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Certificates to be transferred, split up, combined or exchanged at the office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate or Certificates until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company or the Rights Agent shall reasonably request. Thereupon the Rights Agent shall, subject to Section 4(b), Section 7(e) and Section 14 hereof, countersign and deliver to the Person entitled thereto a Rights Certificate or Rights Certificates, as the case may be, as so requested. The Rights Agent shall not be obligated to process the transaction until it has received evidence that all taxes and charges arising from the transaction have been paid. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security satisfactory to them, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will execute and deliver a new Rights Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to subsection (e), the registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein including, without limitation, the restrictions on exercisability set forth in Section 9(c), Section 11(a) (iii) and Section 23(a) hereof) in whole or in part at any time after the Distribution Date upon surrender of the Rights Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly executed, to the Rights Agent at the office of the Rights Agent designated for such purpose, together with payment of the aggregate Purchase Price (except as provided in Section 11(q) hereof) with respect to the total number of Preferred Share Fractions (or Common Shares, other securities, cash or other assets, as the case may be) as to which such surrendered Rights are then exercisable (except as provided in Section 11(q) hereof), at or prior to the earliest of (i) the Close of Business on March 1, 2008 (the "Final Expiration Date"), (ii) the consummation of a transaction contemplated by Section 13(d) hereof, or (iii) the time at which the Rights are redeemed or terminated as provided in Section 23 hereof (the earliest of (i), (ii) and (iii) being herein referred to as the "Expiration Date").

(b) The Purchase Price for each Preferred Share Fraction pursuant to the exercise of a Right shall initially be \$90, and shall be subject to adjustment from time to time as provided in Sections 11 and 13(a) hereof and shall be payable in accordance with subsection (c).

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase and the certificate duly executed, accompanied by payment, with respect to each Right so exercised, of the Purchase Price per Preferred Share Fraction (or Common Shares, other securities, cash or other assets, as the case may be) to be purchased as set forth below and an amount equal to any applicable tax or governmental charge, the Rights Agent shall, subject to Section 20(k) and Section 14(b) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Shares (or make available, if the Rights Agent is the transfer agent for the Common Shares) certificates for the total number of Preferred Shares to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) if the Company shall have elected to deposit some or all of the total number of Preferred Shares issuable upon exercise of the Rights hereunder with a depository agent, requisition from the depository agent depository receipts representing such number of Preferred Share Fractions as are to be purchased (in which case certificates for the Preferred Shares represented by such receipts shall be deposited by the transfer agent with the depository agent) and the Company will direct the depository agent to comply with such request, (ii) requisition from the Company the amount of cash, if any, to be paid in lieu of fractional shares in accordance with Section 14 hereof, (iii) after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, and (iv) after receipt thereof, deliver such cash, if any, to or upon the order of the registered holder of such Rights Certificate. The payment of the Purchase Price (as such amount may be reduced pursuant

to Section 11(a) (iii) hereof) may be made, at the election of the holder of the Rights Certificate, (x) in cash or by certified bank check or money order payable to the order of the Company or (y) by delivery of Rights if and to the extent authorized by Section 11(q) hereof. In the event that the Company is obligated to issue other securities of the Company (including Common Shares) pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when necessary to comply with this agreement.

(d) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to, or upon the order of, the registered holder of such Rights Certificate, registered in such name or names as may be

designated by such holder, subject to the provisions of Section 6 and Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing oral or written plan, agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of an oral or written plan, agreement, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise; provided, however, that the Rights held by an Acquiring Person, an Affiliate or Associate of an Acquiring Person or the transferees of such persons referred to above shall not be voided unless the Acquiring Person in question or an Affiliate or Associate of such Acquiring Person shall be involved in the transaction giving rise to the Section 11(a)(ii) Event. The Company shall notify the Rights Agent when this Section 7(e) applies and shall use all reasonable efforts to insure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but neither the Company nor the Rights Agent shall have any liability to any holder of Rights Certificates or other Person as a result of the Company's failure to make any determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder.

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(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have (i) properly completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall or the Rights Agent reasonably request.

Section 8. Cancellation and Destruction of Rights Certificates. All Rights Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Rights Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Rights Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Capital Stock; Registration of Securities.

(a) The Company covenants and agrees that it will cause to be reserved and kept available for issuance upon the exercise of outstanding Rights as many of its authorized and unissued Preferred Shares (and, following the occurrence of a Triggering Event, out of its authorized and unissued or treasury Common Shares and/or other securities) or out of its authorized and issued shares held in its treasury, which together, shall at all times after the Distribution Date be sufficient to permit the exercise in full of all outstanding Rights.

(b) So long as the Preferred Shares (and, following the occurrence of a Triggering Event, Common Shares or other securities) issuable and deliverable upon the exercise of the Rights may be listed on any stock exchange, or quoted

on the Nasdaq Stock Market, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares and other securities reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Section 11(a) (ii) Event on which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a) (iii) hereof, or as soon as is required by law following the

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Distribution Date, as the case may be, a registration statement or statements under the Securities Act of 1933, as amended (the "Act"), with respect to the securities purchasable upon exercise of the Rights on an appropriate form or forms, (ii) cause such registration statement or statements to become effective as soon as practicable after such filing, and (iii) cause such registration statement or statements to remain effective (with a prospectus at all times meeting the requirements of the Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities, and (B) the Expiration Date. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed ninety (90) days after the date set forth in clause (i) of the first sentence of this subsection (c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. In addition, if the Company shall determine that a registration statement is required following the Distribution Date, the Company may, by issuing a public announcement, temporarily suspend the exercisability of the Rights until such time as a registration statement has been declared effective. The Company shall notify the Rights Agent whenever it makes a public announcement pursuant to this subsection (c) and give the Rights Agent a copy of the announcement. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction unless the requisite qualification in such jurisdiction shall have been obtained, nor shall the Rights be exercisable if the exercise thereof shall not be permitted under applicable law or a registration statement shall not have been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Preferred Shares (and, following a Triggering Event, Common Shares or other securities) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares or other securities (subject to payment of the Purchase Price), be duly and validly authorized and issued and, with respect to Preferred Shares, Common Shares or other shares of capital stock, fully paid and nonassessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all taxes and governmental charges that may be payable in respect of the issuance or delivery of the Rights Certificates and of any certificates for a number of Preferred Share Fractions (or Common Shares or other securities, as the case may be) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax that may be payable in respect of any transfer or delivery of Rights Certificates to a Person other than, or the issuance or delivery of a number of Preferred Share Fractions (or Common Shares or other securities, as the case may be) in respect of a name other than that of the registered holder of the Rights Certificates evidencing Rights surrendered for exercise or to issue or deliver any

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certificates for a number of Preferred Share Fractions (or Common Shares or other securities, as the case may be) in a name other than that of the registered holder upon the exercise of any Rights until such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

Section 10. Capital Stock Record Date. Each Person in whose name any certificate for a number of Preferred Share Fractions (or Common Shares or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of such Preferred Share Fractions (or Common Shares or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and all applicable taxes and governmental charges) was made; provided, however, that if the date of such surrender and payment is a date upon which the applicable transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares (fractional or otherwise) on, and such certificate shall be dated, the next succeeding Business Day on which the applicable transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a shareholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights. The Purchase Price, the number and kind of shares and other securities covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on any security of the Company payable in Preferred Shares, (B) subdivide the outstanding Preferred Shares, (C) combine the outstanding Preferred Shares into a smaller number of shares, or (D) issue any shares of its capital stock in a reclassification of the Preferred Shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a) and Section 7(e) hereof, the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of Preferred Shares or capital stock, as the case may be, issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive, upon payment of the adjusted Purchase Price, the aggregate number and kind of Preferred Shares or capital stock, as the case may be, that, if such

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Right had been exercised immediately prior to such date and at a time when the Preferred Share transfer books were open, such holder would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which would require an adjustment under both this Section 11(a) (i) and Section 11(a) (ii) hereof, the adjustment provided for in this Section 11(a) (i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a) (ii) hereof.

(ii) In the event:

(A) any Acquiring Person or any Associate or Affiliate of any Acquiring Person, at any time after the Stock Acquisition Date, directly or indirectly, (1) shall merge into the Company or otherwise combine with the Company and the Company shall be the continuing or surviving corporation of such merger or combination and the Common Shares of the Company or other equity securities of the Company shall remain outstanding, (2) shall, in one transaction or a series of transactions, transfer any assets to the Company or to any of its Subsidiaries in exchange (in whole or in part) for Common Shares, for shares of other equity securities of the Company, or for securities exercisable for or convertible into shares of equity securities of the Company (Common Shares or otherwise) or otherwise obtain from the Company, with or without consideration, any additional shares of such equity securities or securities exercisable for or convertible into shares of such equity securities (other than pursuant to a pro rata distribution to all holders of Common Shares), (3) shall sell, purchase, lease, exchange, mortgage, pledge, transfer or otherwise acquire or dispose of assets in one transaction or a series of

transactions, to, from or with (as the case may be) the Company or any of its Subsidiaries, on terms and conditions less favorable to the Company than the Company would be able to obtain in arm's-length negotiation with an unaffiliated third party, other than pursuant to a Section 13 Event, (4) shall sell, purchase, lease, exchange, mortgage, pledge, transfer or otherwise dispose of assets having an aggregate fair market value of more than \$5,000,000 in one transaction or a series of transactions, to, from or with (as the case may be) the Company or any of the Company's Subsidiaries (other than incidental to the lines of business, if any, engaged in as of the date hereof between the Company and such Acquiring Person or Associate or Affiliate), other than pursuant to a Section 13 Event, (5) shall receive any compensation from the Company or any of the Company's Subsidiaries other than compensation for full-time employment as a regular employee at rates in accordance with the Company's (or its Subsidiaries') past practices, or (6) shall receive the benefit, directly or indirectly (except proportionately as a shareholder and except if resulting from a requirement of law or governmental regulation), of any loans,

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advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Company or any of its Subsidiaries; or

(B) any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan), alone or together with its Affiliates and Associates, shall, at any time after the Rights Dividend Declaration Date, become the Beneficial Owner of 20% or more of the Common Shares then outstanding, unless the event causing the 20% threshold to be crossed is a Section 13 Event, or is an acquisition of Common Shares pursuant to a tender offer or an exchange offer for all outstanding Common Shares at a price and on terms determined by at least a majority of the Continuing Directors, after receiving advice from one or more nationally recognized investment banking firms, to be in the best interests of the Company and its shareholders (a Qualifying Offer), after taking into consideration all factors that such members of the Board of Directors deem relevant, including, without limitation, the long-term prospects and value of the Company and the prices and terms that such members of the Board of Directors believe, in good faith, could reasonably be achieved if the Company or its assets were sold on an orderly basis designed to realize maximum value, or

(C) during such time as there is an Acquiring Person, there shall be any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction or series of transactions involving the Company or any of its Subsidiaries, other than a Section 13 Event or series of such Section 13 Events (whether or not with or into or otherwise involving an Acquiring Person) that has the effect, directly or indirectly, of increasing by more than 1% the proportionate share of the outstanding shares of any class of equity securities of the Company or any of its Subsidiaries that is directly or indirectly beneficially owned by any Acquiring Person or any Associate or Affiliate of any Acquiring Person,

then, promptly following the first occurrence of a Section 11(a)(ii) Event, proper provision shall be made so that each holder of a Right (except as provided below and in Section 7(e) hereof) shall thereafter have the right to receive, upon exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, in lieu of a number of Preferred Share Fractions, such number of Common Shares of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price by the then number of Preferred Share Fractions for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event, and (y) dividing that product

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(which, following such first occurrence, shall thereafter be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by 50% of the current market price (as defined in and determined pursuant to Section 11(d) hereof) per Common Share on the date of such first occurrence (such number of shares, the "Adjustment Shares").

(iii) In the event that the number of Common Shares that are authorized by the Company's Articles of Incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit the exercise in full of the Rights in accordance with the foregoing subparagraph (ii) of this Section 11(a), the Company shall: (A) determine the excess of the value of the Adjustment Shares issuable upon the exercise of a Right (the "Current Value") over the Purchase Price (such excess, the "Spread"), and (B) with respect to each Right, make adequate provision to substitute for the Adjustment Shares, upon payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) Common Shares of the same or a different class or other equity securities of the Company (including, without limitation, preferred shares or units of preferred shares that a majority of the Continuing Directors in office at the time has deemed (based, among other things, on the dividend and liquidation rights of such preferred shares) to have substantially the same economic value as Common Shares (such preferred shares, hereinafter referred to as "common share equivalents")), (4) debt securities of the Company, (5) other assets, or (6) any combination of the foregoing, having an aggregate value equal to the Current Value, where such aggregate value has been determined by a majority of the Continuing Directors in office at the time after considering the advice of a nationally recognized investment banking firm selected by the Board of Directors of the Company; provided, however, if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the later of (x) the first occurrence of a Section 11(a)(ii) Event and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "Section 11(a)(ii) Trigger Date"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, Common Shares (to the extent available) and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. If the Board of Directors of the Company shall determine in good faith that it is likely that sufficient additional Common Shares could be authorized for issuance upon exercise in full of the Rights, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek shareholder approval for the authorization of such additional shares (such period, as it may be extended, the "Substitution Period"). To the extent that the Company determines that some action need be taken pursuant to the first and/or second sentences of this Section 11(a)(iii), the

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Company shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights, and may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. The Company shall make a public announcement when the exercisability of the Rights has been temporarily suspended, and again when such suspension is no longer in effect. The Company shall notify the Rights Agent of the suspension of the exercisability of the Rights, and provide the Rights Agent with a copy of such public announcement. For purposes of this Section 11(a)(iii), the value of the Common Shares shall be the current market price (as determined pursuant to Section 11(d) hereof) per Common Share on the Section 11(a)(ii) Trigger Date and the value of any "common share equivalent" shall be deemed to have the same value as the Common Shares on such date.

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to holders of any security of the Company entitling them to subscribe for or purchase (for a period expiring within forty-five (45) calendar days after such record date) Preferred Shares (or shares having the same rights, privileges and preferences as the Preferred Shares ("equivalent preferred shares")) or securities convertible into Preferred Shares or

equivalent preferred shares at a price per Preferred Share or per equivalent preferred share (or having a conversion price per share, if a security convertible into Preferred Shares or equivalent preferred shares) less than the current market price (as determined pursuant to Section 11(d) hereof) per Preferred Share on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Preferred Shares outstanding on such record date, plus the number of Preferred Shares that the aggregate offering price of the total number of Preferred Shares and/or equivalent preferred shares so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price, and the denominator of which shall be the number of Preferred Shares outstanding on such record date, plus the number of additional Preferred Shares and/or equivalent preferred shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid by delivery of consideration part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Company, the Rights Agent and the holders of the Rights. Preferred Shares owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price that would then be in effect if such record date had not been fixed.

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(c) In case the Company shall fix a record date for a distribution to all holders of Preferred Shares (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of indebtedness, cash (other than a regular quarterly dividend out of the earnings or retained earnings of the Company), assets (other than a regular quarterly dividend referred to above or dividend payable in Preferred Shares, but including any dividend payable in stock other than Preferred Shares) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the current market price (as determined pursuant to Section 11(d) hereof) per Preferred Share on such record date, less the then fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a Preferred Share and the denominator of which shall be such current market price (as determined pursuant to Section 11(d) hereof) per Preferred Share. Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such distribution is not so made, the Purchase Price shall be adjusted to be the Purchase Price which would have been in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, other than computations made pursuant to Section 11(a) (iii) hereof, the "current market price" per Common Share on any date shall be deemed to be the average of the daily closing prices per Common Share for the thirty (30) consecutive Trading Days (as such term is hereinafter defined) immediately prior to and not including such date, and for purposes of computations made pursuant to Section 11(a) (iii) hereof, the "current market price" per Common Share on any date shall be deemed to be the average of the daily closing prices per Common Share for the ten (10) consecutive Trading Days immediately following and not including such date; provided, however, that in the event that the current market price per Common Share is determined during a period following the announcement by the issuer of such Common Share of (A) a dividend or distribution on such Common Share payable in Common Shares or securities convertible into Common Shares (other than the Rights), or (B) any subdivision, combination or reclassification of such Common Shares, and prior to the expiration of the requisite thirty (30) Trading Day or ten (10) Trading Day period, as set forth above, after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the "current market price" shall be properly adjusted to take into account

ex-dividend trading. The closing price for each Trading Day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal

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consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Common Shares are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Common Shares are listed or admitted to trading or, if the Common Shares are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("Nasdaq") or such other system then in use, or, if on any such date the Common Shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Shares selected by the Board of Directors of the Company. If on any such date no market maker is making a market in the Common Shares, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Shares are listed or admitted to trading is open for the transaction of business or, if the Common Shares are not listed or admitted to trading on any national securities exchange, a Business Day. If the Common Shares are not publicly held or not so listed or traded, "current market price" per share shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(ii) For the purpose of any computation hereunder, the "current market price" per Preferred Share shall be determined in the same manner as set forth above for the Common Shares in clause (i) of this Section 11(d) (other than the last sentence thereof). If the current market price per Preferred Share cannot be determined in the manner provided above or if the Preferred Shares are not publicly held or listed or traded in a manner described in clause (i) of this Section 11(d), the "current market price" per Preferred Share shall be conclusively deemed to be an amount equal to one hundred (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Shares occurring after the date of this Agreement) multiplied by the current market price per Common Share. If neither the Common Shares nor the Preferred Shares are publicly held or so listed or traded, "current market price" per Preferred Share shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes. For all purposes of this Agreement, the "current market price" of a Preferred Share Fraction shall be equal to the "current market price" of one Preferred Share divided by 1000.

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(e) Anything herein to the contrary notwithstanding, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the Purchase Price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a Common Share or one millionth of a Preferred Share, as the case may be. Notwithstanding the first sentence of this subsection (e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three (3) years from the date of the transaction that mandates such adjustment, or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 11(a) (ii) or Section 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock other than Preferred

Shares, thereafter the number of such other shares so receivable upon exercise of any Right and the Purchase Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Shares contained in Sections 11(a), (b), (c), (e), (g), (h), (i), (j), (k), (m) and (q), and the provisions of Sections 7, 9, 10, 13 and 14 hereof with respect to the Preferred Shares shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of Preferred Share Fractions purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in subsections (b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of Preferred Share Fractions (calculated to the nearest one-one millionth of a Preferred Share) obtained by (i) multiplying (x) the number of Preferred Share Fractions covered by a Right immediately prior to this adjustment, by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price, and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in lieu of any adjustment in the number of Preferred Share Fractions purchasable upon the exercise of a Right. Each of the Rights outstanding after the adjustment in the number of Rights shall be exercisable for the number of Preferred Share Fractions for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall

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become that number of Rights (calculated to the nearest one-one millionth of a Preferred Share) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. The Company shall forward a copy of such public announcement to the Rights Agent. The record date for the adjustment may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of Preferred Share Fractions issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Purchase Price per Preferred Share Fraction and the number of Preferred Share Fractions that were expressed in the initial Rights Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then stated or par value, if any, of the number of Preferred Share Fractions issuable upon exercise of the Rights, the Company shall take any corporate action that may, in the opinion of its counsel, be

necessary in order that the Company may validly and legally issue such number of fully paid and nonassessable Preferred Share Fractions at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of Preferred Share Fractions and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of Preferred Share Fractions and other capital stock or securities of the Company, if any, issuable

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upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or securities upon the occurrence of the event requiring such adjustment, and the Company shall also deliver a copy of such bill or instrument to the Rights Agent.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that in their good faith judgment the Board of Directors of the Company shall determine to be advisable in order that any (i) consolidation or subdivision of the Preferred Shares, (ii) issuance wholly for cash of any Preferred Shares at less than the current market price, (iii) issuance wholly for cash for Preferred Shares or securities which by their terms are convertible into or exchangeable for Preferred Shares, (iv) stock dividends or (v) issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to holders of its Preferred Shares shall not be taxable to such shareholders.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), (ii) merge with or into any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction, or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other person or persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), if (x) at the time of or immediately after such consolidation, merger or sale there are any rights, warrants or other instruments or securities outstanding or agreements in effect that would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the shareholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Section 23 or Section 26 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

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(p) Anything in this Agreement to the contrary notwithstanding, in the event that the Company shall at any time after the Rights Dividend Declaration Date and prior to the Distribution Date (i) declare a dividend on the outstanding Common Shares payable in Common Shares, (ii) subdivide the outstanding Common Shares, or (iii) combine the outstanding Common Shares into a smaller number of shares, the number of Rights associated with each Common Share then outstanding, or issued or delivered thereafter but prior to the Distribution Date, shall be proportionately adjusted so that the number of

Rights thereafter associated with each Common Share following any such event shall equal the result obtained by multiplying the number of Rights associated with each Common Share immediately prior to such event by a fraction the numerator of which shall be the total number of Common Shares outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of Common Shares outstanding immediately following the occurrence of such event.

(q) In the event that the Rights become exercisable following a Section 11(a)(ii) Event, the Company, by action of a majority of the Continuing Directors in office at the time, may authorize that the Rights, subject to Section 7(e) hereof, either (i) will only be, or (ii) may, at the option of the holder entitled to exercise the Rights be, exercisable for, in either case 50% of the Common Shares (or cash or other securities or assets to be substituted for the Adjustment Shares pursuant to subsection (a)(iii)) that would otherwise be purchasable under subsection (a), in consideration of the surrender to the Company of the Rights so exercised and without other payment of the Purchase Price. Rights exercised under this subsection (q) shall be deemed to have been exercised in full and shall be canceled.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Section 11 or Section 13 hereof, the Company shall (a) promptly prepare a certificate setting forth such adjustment and a brief, reasonably detailed statement of the facts and computations accounting for such adjustment, (b) promptly file with the Rights Agent, and with each transfer agent for the Preferred Shares and the Common Shares, a copy of such certificate, and (c) mail a brief summary thereof to each holder of a Rights Certificate (or, if prior to the Distribution Date, to each holder of a certificate representing Common Shares) in accordance with Section 25 hereof. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall have no duty with respect to and shall not be deemed to have knowledge of any such adjustment unless and until it shall have received such a certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

(a) In the event that, following the Stock Acquisition Date, directly or indirectly, (x) the Company shall consolidate with, or merge with and into, any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), and the Company shall not be the continuing or surviving corporation of such

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consolidation or merger, (y) any person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof) shall consolidate with, or merge with or into, the Company, and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding Common Shares shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one transaction or a series of related transactions, assets or earning power aggregating more than 50% of the assets, operating income, cash flow or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions each of which complies with Section 11(o) hereof), then, and in each such case and except as contemplated by subsection (d), proper provision shall be made so that:

(i) each holder of a Right, except as provided in Section 7(e) hereof or subsection (e), shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, non assessable and freely tradeable Common Shares of the Principal Party (as such term is hereinafter defined), not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Purchase Price by the number of Preferred Share Fractions for which a Right is exercisable immediately prior to the first occurrence of a Section 13 Event (or, if a Section 11(a)(ii) Event has occurred prior to the first occurrence of a Section 13 Event, multiplying the number of such shares for

which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event by the Purchase Price in effect immediately prior to such first occurrence), and (2) dividing that product (which, following the first occurrence of a Section 13 Event, shall be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by 50% of the current market price (determined pursuant to Section 11(d)(i) hereof) per Common Share of such Principal Party on the date of consummation of such Section 13 Event;

(ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement;

(iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal Party following the first occurrence of a Section 13 Event;

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(iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of its Common Shares) in connection with the consummation of any such transaction as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its Common Shares thereafter deliverable upon the exercise of the Rights; and

(v) the provisions of Section 11(a)(ii) hereof shall be of no effect following the first occurrence of any Section 13 Event.

(b) "Principal Party" shall mean

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of subsection (a), the Person that is the issuer of any securities into which Common Shares of the Company are converted in such merger or consolidation, and if no securities are so issued, the Person that is the other party to such merger or consolidation; and

(ii) in the case of any transaction described in clause (z) of the first sentence of subsection (a), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions;

provided, however, that in the case of either (i) or (ii) above, (1) if the Common Shares of such Person are not at such time and have not been continuously over the preceding twelve (12) month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Shares of which are and have been so registered, "Principal Party" shall refer to such other Person, and (2) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Shares of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the issuer of the Common Shares having the greatest aggregate market value.

(c) The Company shall not consummate any such consolidation, merger, sale or transfer unless the Principal Party shall have a sufficient number of authorized shares of its Common Shares that have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in paragraphs (a) and (b) of this Section 13 and further providing that, as soon as practicable after the date of any Section 13 event, the Principal Party will

(i) prepare and file a registration statement under the Act, with respect to the Rights and the securities purchasable upon exercise of the Rights on an

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appropriate form, and will use its best efforts to cause such registration

statement to (A) become effective as soon as practicable after such filing and (B) remain effective (with a prospectus at all times meeting the requirements of the Act) until the Expiration Date;

(ii) use its best efforts to qualify or register the Rights and the securities purchasable upon exercise of the Rights under blue sky laws of such jurisdiction, as may be necessary or appropriate; and

(iii) deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates that comply in all respects with the requirements for registration on Form 10 under the Exchange Act.

The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights that have not theretofore been exercised shall thereafter become exercisable solely in the manner described in Section 13(a).

(d) Notwithstanding anything in this Agreement to the contrary, Section 13 (other than this subsection (d)) shall not be applicable to, and the term "Section 13 Event" shall not include, a transaction described in subparagraphs (x) and (y) of Section 13(a) if (i) such transaction is consummated with a Person, or Persons who acquired Common Shares pursuant to a Qualifying Offer (or a wholly owned Subsidiary of any such Person or Persons), (ii) the price per Common Share offered in such transaction is not less than the price per Common Share paid to all holders of Common Shares whose shares were purchased pursuant to such tender offer or exchange offer and (iii) the form of consideration being offered to the remaining holders of Common Shares pursuant to such transaction is the same as the form of consideration paid pursuant to such tender or exchange offer. Upon consummation of any such transaction contemplated by this subsection (d), all Rights hereunder shall expire.

(e) In the event that the Rights become exercisable under subsection (a) (except as provided in subsection (d)), the Company, by action of a majority of the Continuing Directors in office at the time, may authorize that the Rights either (i) will only be or (ii) may, at the option of the Principal Party be, exercisable for, 50% of the Common Shares of the Principal Party that would otherwise be purchasable under subsection (a), in consideration of the surrender to the Principal Party, as the successor to the Company under subsection (a)(ii), of the Rights so exercised and without other payment of the Purchase Price. Rights exercised under this subsection (e) shall be deemed to have been exercised in full and shall be canceled.

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Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights, except prior to the Distribution Date as provided in Section 11(p) hereof, or to distribute Rights Certificates that evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For purposes of this subsection (a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price of the Rights for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading, or if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by Nasdaq or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board of Directors of the Company. If on any such date no such market maker is making a

market in the Rights the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

(b) The Company shall not be required to issue fractions of Preferred Shares upon exercise of the Rights or to distribute certificates which evidence fractional Preferred Shares, except in each case for fractions which are integral multiples of Preferred Shares. In lieu of fractional Preferred Shares that are not integral multiples of Preferred Shares, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of a Preferred Share. For purposes of this subsection (b), the current market value of one Preferred Share shall be the closing price of a Preferred Share (as determined pursuant to Section 11(d)(ii) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) Following the occurrence of a Triggering Event, the Company shall not be required to issue fractions of Common Shares upon exercise of the Rights or to distribute certificates that evidence fractional Common Shares. In lieu of fractional Common Shares, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one Common Share. For purposes of this subsection (c), the current market value of one

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Common Share shall be the closing price of one Common Share (as determined pursuant to Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(d) Whenever a payment for fractional Rights or fractional shares is to be made by the Rights Agent, the Company shall (i) promptly prepare and deliver to the Rights Agent a certificate setting forth in reasonable detail the facts related to such payment and the process and/or formulas utilized in calculating such payments, and (ii) provide sufficient monies to the Rights Agent in the form of fully collected funds to make such payments. The Rights Agent shall be fully protected in relying on such certificate and shall have no duty with respect to and shall not be deemed to have knowledge of any payment for fractional Rights or fractional shares under this Section 4 unless and until it shall have received such a certificate and sufficient monies.

(e) The holder of a Right or a beneficial interest in a Right by the acceptance thereof expressly waives his right to receive any fractional Rights or any fractional Common Shares upon exercise of a Right, except as permitted by this Section 14.

Section 15. Rights of Action. All rights of action in respect of this Agreement are vested in the respective registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, of the Common Shares), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of the Common Shares), may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights or beneficial interests therein, it is specifically acknowledged that the holders of Rights or beneficial interests therein would not have an adequate remedy at law for any breach of this Agreement and shall be entitled to specific performance of the obligations hereunder and injunctive relief against actual or threatened violations of the obligations hereunder of any Person subject to this Agreement.

Section 16. Agreement of Rights Holders. Every holder of a Right or a beneficial interest in a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other such holder that:

(a) prior to the Distribution Date, beneficial interests in the Rights will be transferable only in connection with the transfer of Common Shares;

(b) after the Distribution Date, the Rights Certificates are transferable only on the registry books of the Rights Agent if surrendered at the office of the Rights Agent

designated for such purposes, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed;

(c) subject to Section 6(a) and Section 7(f) hereof, the Company and the Rights Agent may deem and treat the Person in whose name a Rights Certificate (or, prior to the Distribution Date, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificates or the associated Common Share certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be required to be affected by any notice to the contrary; and

(d) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or a beneficial interest in a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree, judgment or ruling (whether interlocutory or final) issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided, however, the Company must use its best efforts to have any such order, decree, judgment or ruling lifted or otherwise overturned as soon as possible.

Section 17. Rights Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the number of Preferred Share Fractions or any other securities of the Company (including the Common Shares) that may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 24 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.

(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and disbursements and other disbursements incurred in the preparation, execution, delivery, amendment, administration and

execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent and its directors, officers, employees and agents, for and to hold each of them harmless against, any loss, liability, damage, judgment, fine, penalty, claim, demand, settlement, cost or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent or any such indemnified party, for any action taken, suffered or omitted by the Rights Agent in connection with the acceptance or administration of this Agreement or the exercise of its duties hereunder, including without limitation the costs and expenses of defending against any claim of liability in the premises.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with the acceptance and administration of this Agreement or in the exercise of its duties hereunder in reliance upon any Rights Certificate or certificate for Common Shares or for other securities of the Company, instrument of assignment

or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any Person into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any Person succeeding to the shareholder services or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, however, that such Person would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificates shall have been countersigned but not delivered the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations, and only the duties and obligations, expressly imposed by this Agreement (and no implied duties or obligations) upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates or beneficial interests in the Rights, by their acceptance thereof, shall be bound:

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(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the advice or written opinion of such counsel shall be full and complete authorization and protection to the Rights Agent, and the Rights Agent shall incur no liability for or in respect of, any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of "current market price") be proved or established by the Company prior to taking, suffering or omitting any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization and protection to the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered or omitted in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own gross negligence, bad faith or willful misconduct; provided, however that the Rights Agent shall not be liable for special, indirect, incidental or consequential loss or damage of any kind whatsoever, even if the Rights Agent has been advised of the likelihood of such loss or damage.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates or be required to verify the same (except as to its countersignature on such Rights Certificates), but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any liability or responsibility in respect of the validity of any provision of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any

breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any adjustment required under the provisions of this Agreement or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Common Shares to be issued pursuant to this

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Agreement or any Rights Certificate or as to whether any Common Shares or Preferred Shares will, when so issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and such instructions shall be full authorization and protection for the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered or omitted to be taken by it in good faith in accordance with instructions of any such officer. The Rights Agent may conclusively rely on the most recent instructions provided to it by any such officer.

(h) The Rights Agent and any shareholder, affiliate, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent under this Agreement and none of such actions shall constitute a breach of trust. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other Person or legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company or any other Person resulting from any such act, default, neglect or misconduct, absent gross negligence, bad faith or willful misconduct in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if it believes that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an

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affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement

upon thirty (30) days' prior written notice mailed to the Company and to each transfer agent of the Common Shares and Preferred Shares by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' prior written notice mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Shares and Preferred Shares, by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit his Rights Certificate for inspection by the Company), then any registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (a) a Person organized, doing business and in good standing under the laws of the United States or of any state, having a principal office in the State of New York or the Commonwealth of Massachusetts, that is authorized by law to exercise shareholder services and stock transfer powers and is subject to supervision or examination by federal or state authority and that has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50,000,000 or (b) an Affiliate of any such Person. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares and Preferred Shares and mail a notice thereof in writing to the registered holders of the Rights Certificates or, prior to the Distribution Date, to the registered holders of the Common Shares. In case at the time such successor Rights Agent shall succeed to the agency and trust created by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of a predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor or in the name of the successor Rights Agent; and in all such cases such Rights Certificates shall have the

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full force provided in the Rights Certificates and in this Agreement. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Rights Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance, sale or delivery of Common Shares following the Distribution Date and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to Common Shares so issued, sold or delivered pursuant to the exercise of stock options, stock appreciation rights, grants or awards outstanding on the Distribution Date under any benefit plan or arrangement for employees or directors, or upon the exercise, conversion or exchange of securities outstanding on the Record Date or hereinafter issued by the Company, and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Rights Certificate shall be issued if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued, and (ii) no such Rights

Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption and Termination.

(a) The Board of Directors of the Company may, at its option, at any time prior to the earlier of (i) the Close of Business on the tenth day following a Stock Acquisition Date (or, if the Stock Acquisition Date shall have occurred prior to the Record Date, the Close of Business on the tenth day following the Record Date), or (ii) the Close of Business on the Final Expiration Date, redeem all but not less than all the then outstanding Rights at a redemption price of \$.01 per Right, as such amount may be appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price") and the Company may, at its option, pay the Redemption Price either in Common Shares (based on the "current market price", as defined in Section 11(d)(i) hereof, of the Common Shares at the time of redemption) or cash; provided, however, if the Board of Directors of the Company authorizes redemption of the Rights in either of the circumstances set forth in clauses (i) and (ii) of this proviso, then there must be Continuing Directors then in office and such authorization shall require the concurrence of a majority of such

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Continuing Directors; and provided further, however, that if, following the occurrence of a Stock Acquisition Date and following the expiration of the right of redemption hereunder but prior to any Triggering Event, (i) an Acquiring Person shall have transferred or otherwise disposed of a number of Common Shares in one transaction or series of transactions, not directly or indirectly involving the Company or any of its Subsidiaries, which did not result in the occurrence of a Triggering Event or the Company (with the approval of the majority of Continuing Directors) shall have issued additional equity securities, in either instance such that such Person is thereafter a Beneficial Owner of 10% or less of the outstanding Common Shares, and (ii) there is no other Acquiring Person immediately following the occurrence of the event described in clause (i), then the right of redemption shall be reinstated and thereafter be subject to the provisions of this Section 23. Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) Event until such time as the Company's right of redemption hereunder has expired.

(b) Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights, without any notice, or further action, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price for each Right so held. Promptly after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by, in the case of notice to holders, mailing such notice to all such holders at each holder's last address as it appears upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the Transfer Agent for the Common Shares. Any notice that is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.

Section 24. Exchange.

(a) The Board of Directors of the Company may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become null and void pursuant to the provisions of Section 7(e) hereof) for Common Shares at an exchange ratio of one Common Share per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the AExchange Ratio). Notwithstanding the foregoing, the Company's Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of fifty percent (50%) or more of the Common Shares then

outstanding.

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(b) Immediately upon the action of the Board of Directors of the Company ordering the exchange of any Rights pursuant to subsection (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of the holders of such Rights shall be to receive that number of Common Shares equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company shall promptly notify the Rights Agent of any such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Shares for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In the event that there shall not be sufficient Common Shares issued but not outstanding or authorized but issued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may be necessary to authorize additional Common Shares for issuance upon exchange of the Rights.

(d) The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of such fractional Common Shares, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Common Shares would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Common Share. For the purposes of this subsection (d), the current market value of a whole Common Share shall be the closing price of a Common Share (as determined pursuant to the second sentence of Section 11(d) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

Section 25. Notice of Certain Events.

(a) In case the Company shall propose, at any time after the Distribution Date, (i) to pay any dividend payable in stock of any class to the holders of Preferred Shares or to make any other distribution to the holders of Preferred Shares (other than a regular quarterly dividend out of earnings or retained earnings of the Company), or (ii) to offer to the holders of Preferred Shares rights or warrants to subscribe for or to purchase any additional Preferred Shares or shares of stock of any class or any other securities, rights or options, or (iii)

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to effect any reclassification of its Preferred Shares (other than a reclassification involving only the subdivision of outstanding Preferred Shares), or (iv) to effect any consolidation or merger into or with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one transaction or a series of related transactions, of more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), or (v) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to the Rights Agent and to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place

and the date of participation therein by the holders of Preferred Shares, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty (20) days prior to the record date for determining holders of Preferred Shares for purposes of such action, and in the case of any such other action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Preferred Shares, whichever shall be the earlier.

(b) Upon the occurrence of a Section 11(a)(ii) Event, (i) the Company shall as soon as practicable thereafter give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 26 hereof, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) hereof, and (ii) all references in the preceding paragraph to Preferred Shares shall be deemed thereafter to refer to Common Shares and/or, if appropriate, other securities.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Philadelphia Suburban Corporation
762 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
Attention: Corporate Secretary

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

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BankBoston, N.A.
C/O Equiserve Limited Partnership
150 Royall Street
Canton, MA 02021
ATTN: Client Administration

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate (or, if prior to the Distribution Date to the holder of certificates representing Common Shares) shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. Prior to the Distribution Date and subject to the penultimate sentence of this Section 27, the Company may and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement without the approval of any holders of certificates representing Common Shares. From and after the Distribution Date and subject to the penultimate sentence of this Section 27, the Company may and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights Certificates in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder, or (iv) to change or supplement the provisions hereunder in any manner that the Company may deem necessary or desirable and that shall not adversely affect the interests of the holders of Rights Certificates; provided, this Agreement may not be supplemented or amended to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable, or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights. Upon the delivery of a certificate from an appropriate officer of the Company that states that the proposed supplement or amendment is in compliance with the terms of this Section 27, and if requested by the Rights Agent, an opinion of counsel, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to

the contrary, (i) no supplement or amendment shall be made that changes the Redemption Price, the Final Expiration Date, the Purchase Price or the number of Preferred Share Fractions for which a Right is exercisable, (ii) any supplement or amendment shall be effective only if there are Continuing Directors and shall require the concurrence of a majority of such Continuing Directors if: (x) such supplement or amendment occurs on or after the time a Person becomes an Acquiring Person, or (y) such supplement or amendment occurs on or after the date of a change (resulting from a proxy or consent solicitation) in a majority of the directors in office at the commencement of such solicitation if any Person who is a participant in such solicitation has stated (or, if upon the commencement of such solicitation, a majority of the Board of Directors of the Company has determined in good faith) that such Person (or any of its

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Affiliates or Associates) intends to take, or may consider taking, any action that would result in such Person becoming an Acquiring Person or that would cause the occurrence of a Triggering Event unless, concurrent with such solicitation, such Person (or one or more of its Affiliates or Associates) is making a cash tender offer pursuant to a Schedule 14D-1 (or any successor form) filed with the Securities and Exchange Commission for all outstanding Common Shares not beneficially owned by such Person (or by its Affiliates or Associates), and (iii) no supplement or amendment that changes or increases the obligations and duties of the Rights Agent under this Agreement shall be effective without the consent of the Rights Agent. Prior to the Distribution Date, the interests of the beneficial owners of Rights shall be deemed coincident with the interests of the holders of Common Shares.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board of Directors, etc. For all purposes of this Agreement, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Company (with, where specifically provided for herein, the concurrence of the Continuing Directors) shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board (with, where specifically provided for herein, the concurrence of the Continuing Directors) or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement, and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend or supplement the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) that are done or made by the Board (with, where specifically provided for herein, the concurrence of the Continuing Directors) in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other Persons, and (y) not subject the Board or the Continuing Directors to any liability to the holders of the Rights. For purposes of this Agreement, the Rights Agent shall be allowed to assume that all such actions, calculations, interpretations and determinations have been done or made by the Board in good faith.

Section 30. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of the

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Common Shares) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of the Common Shares).

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable for any purpose or under any set of circumstances or as applied to any Person, such invalid, void or unenforceable term, provision, covenant or restriction shall continue in effect to the maximum extent possible for all other purposes, under all other circumstances and as applied to all other Persons; and the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the Close of Business on the tenth day following the date of such determination by the Board of Directors. Without limiting the foregoing, if any provisions requiring that a determination be made by less than the entire Board (or at a time or with the concurrence of a group of directors consisting of less than the entire Board) is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, such determination shall then be made by the Board in accordance with applicable law and the Company's Certificate of Incorporation and by-laws.

Section 32. Governing Law. This Agreement, each Right and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the Commonwealth of Pennsylvania and for all purposes shall be governed by and construed in accordance with the laws of such jurisdiction applicable to contracts made and to be performed entirely within such jurisdiction; except that all provisions regarding the rights, duties and obligations of the Rights Agent shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such jurisdiction.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

PHILADELPHIA SUBURBAN CORPORATION

By /s/ Roy H. Stahl

Name: Roy H. Stahl

Title: Senior Vice President and General Counsel

BANKBOSTON, N.A.

By /s/ Carol Mulvey-Eori

Name: Carol Mulvey-Eori

Title: Administrative Manger

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RESOLUTION OF THE BOARD OF DIRECTORS OF
PHILADELPHIA SUBURBAN CORPORATION
ESTABLISHING AND DESIGNATING
SERIES A JUNIOR PARTICIPATING PREFERRED SHARES
AS A SERIES OF THE PREFERRED STOCK

RESOLVED, that pursuant to the authority expressly vested in the Board of Directors of Philadelphia Suburban Corporation (the ACorporation@) by Article FIFTH of the Articles of Incorporation of the Corporation, the Board of Directors hereby fixes and determines the voting rights, designations, preferences, qualifications, privileges, limitations, restrictions, options, conversion rights and other special or relative rights of the first series of the Series Preferred Stock, par value \$1.00 per share, which shall consist of 100,000 shares and shall be designated as Series A Junior Participating Preferred Shares (the "Series A Preferred Shares").

Special Terms of the Series A Preferred Shares

Section 1. Dividends and Distributions.

(a) The rate of dividends payable per share of Series A Preferred Shares on the first day of January, April, July and October in each year or such other quarterly payment date as shall be specified by the Board of Directors (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of the Series A Preferred Shares, shall be (rounded to the nearest cent) equal to the greater of (i) \$10.00 or (ii) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in cash, based upon the fair market value at the time the non-cash dividend or other distribution is declared or paid as determined in good faith by the Board of Directors) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, \$.50 par value per share, of the Corporation since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of the Series A Preferred Shares. Dividends on the Series A Preferred Shares shall be paid out of funds legally available for such purpose. In the event the Corporation shall at any time after March 1, 1998 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amounts to which holders of Series A Preferred Shares were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the

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denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Dividends shall begin to accrue and be cumulative on outstanding Series A Preferred Shares from the Quarterly Dividend Payment Date next preceding the date of issue of such Series A Preferred Shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of Series A Preferred Shares entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the Series A Preferred Shares in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

Section 2. Voting Rights. In addition to any other voting rights required by law, the holders of Series A Preferred Shares shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each Series A Preferred Share shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of Series A Preferred Shares were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) In the event that dividends upon the Series A Preferred Shares shall be in arrears to an amount equal to six full quarterly dividends thereon, the holders of such Series A Preferred Shares shall become entitled to the extent hereinafter provided to vote noncumulatively at all elections of directors of the Corporation, and to receive notice of all shareholders' meetings to be held for such purpose. At such meetings, to the extent that directors are being elected, the holders of such Series A Preferred Shares voting as a class shall be entitled solely to elect two members of the Board of Directors of the Corporation; and all other directors of the Corporation shall be elected by the other shareholders of the Corporation entitled to vote in the election of directors. Such voting rights of the holders of such Series A Preferred Shares shall continue until all accumulated and unpaid dividends thereon shall have been paid or funds sufficient therefor set aside, whereupon all such voting rights of the holders of shares of such series shall cease, subject to being again revived from time to time upon the reoccurrence of the conditions above described as giving rise thereto.

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At any time when such right to elect directors separately as a class shall have so vested, the Corporation may, and upon the written request of the holders of record of not less than 20% of the then outstanding total number of shares of all the Series A Preferred Shares having the right to elect directors in such circumstances shall, call a special meeting of holders of such Series A Preferred Shares for the election of directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request, and, in either case, at the place and upon the notice provided by law and in the By-laws of the Corporation; provided, that the Corporation shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual or special meeting of shareholders of the Corporation. Upon the mailing of the notice of such special meeting to the holders of such Series A Preferred Shares, or, if no such meeting be held, then upon the mailing of the notice of the next annual or special meeting of shareholders for the election of directors, the number of directors of the Corporation shall, ipso facto, be increased to the extent, but only to the extent, necessary to provide sufficient vacancies to enable the holders of such Series A Preferred Shares to elect the two directors hereinabove provided for, and all such vacancies shall be filled only by vote of the holders of such Series A Preferred Shares as hereinabove provided. Whenever the number of directors of the Corporation shall have been increased, the number as so increased may thereafter be further increased or decreased in such manner as may be permitted by the By-laws and without the vote of the holders of Series A Preferred Shares, provided that no such action shall impair the right of the holders of Series A Preferred Shares to elect and to be represented by two directors as herein provided.

So long as the holders of Series A Preferred Shares are entitled hereunder to voting rights, any vacancy in the Board of Directors caused by the death or resignation of any director elected by the holders of Series A Preferred Shares, shall, until the next meeting of shareholders for the election of directors, in each case be filled by the remaining director elected by the holders of Series A Preferred Shares having the right to elect directors in such circumstances.

Upon termination of the voting rights of the holders of any series of

Series A Preferred Shares the terms of office of all persons who shall have been elected directors of the Corporation by vote of the holders of Series A Preferred Shares or by a director elected by such holders shall forthwith terminate.

(c) Except as otherwise provided herein, in the Articles of Incorporation of the Corporation or by law, the holders of Series A Preferred Shares and the holders of Common Stock (and the holders of shares of any other series or class entitled to vote thereon) shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

Section 3. Reacquired Shares. Any Series A Preferred Shares purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become

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authorized but unissued Series Preferred Stock and may be reissued as part of a new series of Series Preferred Stock to be created by resolution or resolutions of the Board of Directors.

Section 4. Liquidation, Dissolution or Winding Up. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Series A Preferred Shares shall be entitled to receive the greater of (a) \$100.00 per share, plus accrued dividends to the date of distribution, whether or not earned or declared, or (b) an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of Common Stock. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount to which holders of Series A Preferred Shares were entitled immediately prior to such event pursuant to clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 5. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the Series A Preferred Shares shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Shares shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 6. No Redemption. The Series A Preferred Shares shall not be redeemable.

Section 7. Ranking. The Series A Preferred Shares shall rank junior to all other series of the Corporation's Series Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

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Section 8. Fractional Shares. Series A Preferred Shares may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Shares.

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EXHIBIT B

[Form of Rights Certificate]

Certificate No. R- _____ Rights

NOT EXERCISABLE AFTER MARCH 1, 2008 OR AFTER EARLIER REDEMPTION BY THE COMPANY. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$.01 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT)].

ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF SUCH AGREEMENT.]*

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* The bracketed portion of the legend shall be inserted only if applicable and shall replace the preceding sentence.

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PHILADELPHIA SUBURBAN CORPORATION

RIGHTS CERTIFICATE

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of March 1, 1998 (the "Rights Agreement"), between Philadelphia Suburban Corporation, a Pennsylvania corporation (the "Company"), and BankBoston, N.A., a Massachusetts limited liability company (the "Rights Agent"), to purchase from the Company at any time prior to 5:00 P.M. (Philadelphia time) on March 1, 2008 at the office or offices of the Rights Agent designated for such purpose, or its successors as Rights Agent, one one-thousandth of a fully paid, nonassessable share of Series A Junior Participating Preferred Stock (the "Preferred Share") of the Company, at a purchase price (the "Purchase Price") of \$90 per one one-thousandth of a Preferred Share (such fraction, a "Preferred Share Fraction"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase and related Certificate duly executed. Except as provided in Sections 11(q) and 13(e) of the Rights Agreement, the Purchase Price shall be paid, at the option of the Company, in cash or Common Stock, of the Company (the "Common Shares") having an equivalent value. The number of Rights evidenced by this Rights Certificate (and the number of Preferred Share Fractions that may be purchased

upon exercise thereof) set forth above, and the Purchase Price per Preferred Share Fraction set forth above, are the number and Purchase Price as of March 1, 1998, based on the Preferred Shares as constituted at such date.

Except as otherwise provided in the Rights Agreement, upon the occurrence of any Section 11(a)(ii) Event (as such term is defined in the Rights Agreement), if the Rights evidenced by this Rights Certificate are beneficially owned by (i) an Acquiring Person or Associate or Affiliate or Associate of any Acquiring Person (as such terms are defined in the Rights Agreement), (ii) a transferee of any Acquiring Person (of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) under certain circumstances specified in the Rights Agreement, a transferee of a person who, after such transfer, became an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, such Rights shall become null and void and no holder hereof shall have any right with respect to such Rights from and after the occurrence of any such Section 11(a)(ii) Event.

As provided in the Rights Agreement, the Purchase Price and the number and kind of Preferred Shares or other securities that may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events, including Triggering Events and a Section 11 (a) (ii) Event.

This Rights Certificate is subject to all of the terms, covenants and restrictions of the Rights Agreement, which terms, covenants and restrictions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a

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full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the above-mentioned office of the Rights Agent and are also available upon written request to the Company.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the office of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of Preferred Share Fractions as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be redeemed by the Company at its option at a redemption price of \$.01 per Right at any time prior to the earlier of the Close of Business (as such term is defined in the Rights Agreement) on (i) the tenth day following the Stock Acquisition Date (as such time period may be extended pursuant to the Rights Agreement), and (ii) the Final Expiration Date. Under certain circumstances set forth in the Rights Agreement, the decision to redeem shall require the concurrence of a majority of the Continuing Directors.

No fractional Preferred Shares will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of a Preferred Share, which may, as the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Preferred Shares or of any other securities of the Company (including Common Shares) that may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or, to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription

rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

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WITNESS the facsimile signature of the proper officers of the Company and its corporate seal.

Dated as of _____, 19__

ATTEST

PHILADELPHIA SUBURBAN CORPORATION

Secretary

By _____
Title:

Countersigned

BANKBOSTON, N.A.

By _____
Authorized Signature

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[Form of Reverse Side of Rights Certificate]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

FOR VALUE RECEIVED _____ hereby sells,
assigns and transfers unto _____
(Please print name and address of transferee)

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: _____, 19 __

Signature

Signature Guaranteed:

Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate [] is [] is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [] did [] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or

Associate of an Acquiring Person.

Dated: _____, 19__

Signature

Signature Guaranteed:

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NOTICE

The signatures to the foregoing Assignment and Certificate must correspond to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

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FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise Rights represented by the Rights Certificate.)

To: PHILADELPHIA SUBURBAN CORPORATION:

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Rights Certificate to purchase the Preferred Shares issuable upon the exercise of the Rights (or Common Shares or such other securities of the Company or of any other person that may be issuable upon the exercise of the Rights) and requests that certificates for such shares be issued in the name of and delivered to:

Please insert social security
or other identifying number

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

Please insert social security
or other identifying number

(Please print name and address)

Dated: _____, 19__

Signature

Signature Guaranteed:

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Certificate

The undersigned hereby certifies by checking the appropriate boxes that

(1) the Rights evidenced by this Rights Certificate [] are [] are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [] did [] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: _____, 19__

Signature

Signature Guaranteed:

NOTICE

The signatures to the foregoing Election to Purchase and Certificate must correspond to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

PHILADELPHIA SUBURBAN CORPORATION
DIRECTOR DEFERRAL PLAN

In recognition of the services provided by non-employee directors, Philadelphia Suburban Corporation wishes to make a vehicle available to them that will facilitate the provision of additional retirement benefits to those individuals under the terms and conditions hereinafter set forth.

ARTICLE 1

Definitions

- 1.1 "Account" means a bookkeeping account established pursuant to Section 3.1 which reflects the amount standing to the credit of the Participant under the Plan.
- 1.2 "Affiliated Company" means any affiliate or subsidiary of the Company.
- 1.3 "Base Retainer" means the annual amount of retainer paid by the Company to a Director for any calendar year including meeting fees, committee fees and fees for committee chairs.
- 1.3 "Beneficiary" means the person(s) designated by a Director to receive any benefits payable under this Plan subsequent to the Director's death. The Committee shall provide a form for this purpose. In the event a Director has not filed a Beneficiary designation with the Company, the Beneficiary shall be the Director's estate.
- 1.4 "Board" means the Board of Directors of the Company.
- 1.5 "Committee" means the Compensation Committee of the Board which shall act for the Company in making decisions and performing specified duties with respect to the Plan.
- 1.6 "Company" means Philadelphia Suburban Corporation and its successors.
- 1.7 "Director" means each individual who serves as a non-employee member of the Board or of the board of directors of an Employer. In the event of the death or incompetency of a Director, the term shall mean the Director's personal representative or guardian. An individual shall remain a Director until that individual has received full distribution of any amount credited to the Director's Account.
- 1-
- 1.8 "Effective Date" means January 1, 1995.
- 1.9 "Employer" means the Company and/or any Participating Employer, either collectively or individually, as the context requires.
- 1.10 "Participating Employer" means any Affiliated Company which is designated by the Board as a Participating Employer under the Plan and whose designation as such has become effective upon acceptance of such status by the board of directors of the Affiliated Company. A Participating Employer may revoke its acceptance of such designation at any time, but until such acceptance has been revoked, all the provisions of the Plan and amendments thereto shall apply to each Director of the Participating Employer. In the event the designation as a Participating Employer is revoked by the board of directors of an Affiliated Company, the Plan shall be deemed terminated only with respect to such Participating Employer.

- 1.11 "Plan" means the Philadelphia Suburban Corporation Director Deferral Plan as the same is set forth herein, and as it may be amended from time to time.
- 1.12 "Plan Year" means the calendar year.
- 1.13 "Termination from Service" means the Director's resignation or other termination from service as a member of the Board for any reason. Except as otherwise provided herein, a Termination from Service shall be deemed to have occurred on the last day of the Director's service as a member of the Board.

ARTICLE 2

Eligibility

- 2.1 Each Director shall be eligible to participate in the Plan on the first day of the calendar quarter following election as a Director.

ARTICLE 3

Benefits

- 3.1 The Employer shall create and maintain on its books an Account for each Director to which it shall credit amounts contributed to the Plan pursuant to this Article 3. The Employer shall also credit each Director's Account with deemed earnings for each Plan Year in accordance with the provisions of Article 8 hereof.

-2-

- 3.2 At least 30 days prior to the commencement of any calendar quarter in a Plan Year, a Director may elect to have the Employer credit to the Director's Account an amount equal to any whole percentage or dollar amount (or shares of stock of the Employer ("Shares") to the extent that the Base Retainer would otherwise be paid in Shares) of the Director's Base Retainer, if any, to be earned for the balance of such Plan Year. If an election is made to have a contribution credited to the Director's Account for a Plan Year, the credit shall be made at the time that such amount would otherwise have been paid (or Shares distributed) and shall reduce the Director's Base Retainer with respect to that Plan Year by a corresponding amount. The Committee may establish minimum or maximum amounts that may be deferred under this Section and may change such standards from time to time. Any such limits shall be communicated by the Committee to the Directors prior to the commencement of a Plan Year.
- 3.3 Any elections under this Article shall be made in writing on such form as the Committee shall specify. Any election by a Director pursuant to this Section 3.3 shall be irrevocable and may not be modified in any respect.

ARTICLE 4

Distributions to Directors

- 4.1 A Director's benefit under the Plan shall be distributed in one lump sum (including Shares to the extent the Director elected to defer the receipt of such Shares pursuant to Section 3.2), or, if the value of the Director's Account is at least \$25,000, in 12 annual installments (with the balance to be distributed, including Shares, if applicable, continuing to be credited with deemed earnings for each subsequent Plan Year in accordance with the provisions of Article 8 hereof) equal to 1\12, 1\11, 1\10, 1\9, 1\8, 1\7, 1\6, 1\5, 1\4, 1\3, 1\2, and 1\1 of the balance then credited to the Director's Account, and shall be paid, or commence, as soon as practicable following the completion of the valuation of the Director's Account for the last day of the month in which the Director has a Termination from Service; provided however, that each Director shall make an election, in the form and manner specified by the Committee, as to the form of payment on or before the end of the year preceding the year of payment. If no such election has been made by the first day of the year in which the Director has a Termination from Service then distribution shall be delayed and shall be

made, or commence, as soon as practicable after the first day of the year following the year in which the Director has a Termination from Service. Notwithstanding anything herein to the contrary, in the event that such a Director fails to make an election, distribution shall be in the form of one lump sum payment, including Shares, paid as soon as practicable after the first day of the year following the date the Director has a Termination from Service.

-3-

- 4.2 In the event that a Director incurs a "significant financial hardship" while a Director, as determined by the Committee, the Director may apply, in writing, for a withdrawal of all or a portion of the balance credited to the Director's Account (including Shares, if elected by the Director) in the form of a lump sum. All determinations by the Committee regarding the existence of a financial hardship shall be made in accordance with the provisions of the Company's Thrift Plan dealing with whether a financial hardship exists for purposes of permitting withdrawals thereunder. The Committee shall determine whether to permit a such a withdrawal and, based upon the Director's application, the amount necessary to satisfy that hardship, which shall be distributed in a single sum (including any Shares, as elected by the Director) as soon as practicable after the Committee's determination.

ARTICLE 5

Death Benefit

- 5.1 In the event of the death of a Director prior to the payment of the full benefit due pursuant to Article 4, the Director's Beneficiary shall receive a lump sum distribution equal to the balance of the Director's Account on the date of death. The benefit payment to the Beneficiary will be made as soon as practicable following the completion of the valuation of the deceased Director's Account. In the event of the death of a Director after payment of a benefit has commenced in installments, pursuant to Section 4.1 hereof, the Director's Beneficiary shall receive the payments due following the Director's death; provided, however, that prior to receiving the next annual installment, the Beneficiary may elect to receive, on the next payment date, in full satisfaction of the Beneficiary's entitlement under the Plan, a lump sum distribution (including any Shares then credited to the Director's Account) equal to the remaining balance then credited to the Director's Account.

ARTICLE 6

Vesting

- 6.1 The balance credited to a Director's Account attributable to Section 3.2 shall be fully vested at all times.

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ARTICLE 7

Funding

- 7.1 The Board may, but shall not be required to, authorize the establishment of a trust by the Employer to serve as the funding vehicle for the benefits described in Article 3 hereof. In any event, the Employer's obligation hereunder shall constitute a general, unsecured obligation, payable solely out of its general assets, and no Director shall have any right to any specific assets of the Employer. In addition, it is the intention of the Employer that the Plan be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

ARTICLE 8

Investments

- 8.1 The balance credited to a Director's Account (other than Shares) shall

be deemed to be invested in an interest bearing instrument which shall provide for interest to be credited and compounded monthly at an effective rate equal to 50 basis points in excess of the prime commercial lending rate established by Mellon Bank N.A., or such other bank determined by the Committee to be the Company's primary bank as of the beginning of any Plan Year, as in effect on the 15th day of each month (or if such day is a non-business day, on the first business day thereafter) during which there is a positive balance in a Director's Account. Interest shall be applied to the average balance of each Director's Account during the prior 30-day period. For any Plan Year, the Committee may determine to make available, and announce to the Directors the procedure to elect, other deemed forms of investment for the amounts credited to the Accounts. A Director's Account, to the extent credited with any Shares, shall be deemed to earn any dividends paid with respect to such Shares and the accumulated dividends, as and when sufficient in amount, shall be deemed invested in additional whole Shares.

ARTICLE 9

Administration

9.1 The Committee shall have full power and authority to interpret the Plan, to prescribe, amend and rescind any rules, forms and procedures as it deems necessary or appropriate for the proper administration of the Plan and to make any other determinations and to take any other such actions as it deems necessary or advisable in carrying out its duties under the Plan. All action taken by the Committee arising out of, or in connection with, the administration of the Plan or any rules adopted thereunder, shall, in each case, lie within its sole discretion, and shall be final, conclusive and binding upon the Employer, the Board, all Employees, all beneficiaries of Employees and all persons and entities having an interest therein.

-5-

9.2 Members of the Committee shall serve without compensation for their services unless otherwise determined by the Board. All expenses of administering the Plan shall be paid by the Employer.

9.3 The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees) and liability (including any amounts paid in settlement of any claim or any other matter with the consent of the Board) arising from any act or omission of such member, except when the same is due to gross negligence or willful misconduct.

9.4 Any decisions, actions or interpretations to be made under the Plan by the Company, the Employer or the Committee (other than in the administration of the Plan) shall be made in its sole discretion, not in any fiduciary capacity and need not be uniformly applied to similarly situated individuals and shall be final, binding and conclusive on all persons interested in the Plan.

ARTICLE 10

Amendment

10.1 The Plan may be amended by the Committee at any time and from time to time all without prior notice to any person or entity; provided, however, that no such amendment shall have the effect of divesting a Director of the benefit which the Director would otherwise receive hereunder at the time the amendment is adopted.

ARTICLE 11

Termination

11.1 Continuance of the Plan is completely voluntary and is not assumed as a contractual obligation of the Employer. The Committee, acting on behalf of the Employer, shall have the right to terminate the Plan in whole or in part at any time all without prior notice to any person or entity; provided, however, that such termination shall not have the effect of

divesting a Director of the benefit which the Director would otherwise receive hereunder at the time of the termination.

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ARTICLE 12

Miscellaneous

- 12.1 Nothing contained herein shall be construed as conferring upon a Director the right to continue in such capacity.
- 12.2 The rights and obligations created hereunder shall be binding on a Director's heirs, executors and administrators and on the successors and assigns of the Employer.
- 12.3 The provisions of the Plan shall be construed and applied under the laws of the Commonwealth of Pennsylvania.
- 12.4 The rights of any Director under this Plan are personal and may not be assigned, transferred, pledged or encumbered. Any attempt to do so shall be void. In addition, a Director's rights hereunder are not subject, in any manner, to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Director or the Director's Beneficiary.
- 12.5 If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not effect any other provisions hereof and the Plan shall be construed and enforced as if such provisions had not been included.
- 12.6 The headings and captions herein are provided for convenience only, and shall not be construed as part of the Plan, and shall not be employed in the construction of the Plan.
- 12.7 Any benefit payable to or for the benefit of a payee who is a minor, an incompetent person, or is otherwise incapable of receipting therefore shall be deemed paid when paid to such person's guardian or to the party providing, or a reasonably appearing to provide, the care for such person, and such payment shall fully discharge the Employer, the Committee, the Board and all other parties with respect thereto.

Amendment No. 1

This Amendment No. 1 made as of February 1, 1999 to the Agreement between Philadelphia Suburban Corporation and Philadelphia Suburban Water Company (the ACompany@) and Nicholas DeBenedictis (the "Executive") dated as of January 1, 1999 (the AAgreement@).

WHEREAS, the Company and Executive recognize that the changes set forth below are necessary and appropriated to secure for both the Company and Executive the benefits contemplated by the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

Paragraph 12 of the Agreement is hereby deleted in its entirety and the following paragraph is inserted in its place:

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive=s termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive=s termination had occurred on the date of the Change of Control.

IN WITNESS WHEREOF, the parties hereto have signed this Amendment No. 1 as of the date set forth above.

Attest	Philadelphia Suburban Corporation
By: /s/ Patricia M. Mycek	By: /s/ Roy H. Stahl
-----	-----
Title: Corporate Secretary	Title: Senior Vice President
-----	-----
Attest	Philadelphia Suburban Water Company
By: /s/ Patricia M. Mycek	By: /s/ Roy H. Stahl
-----	-----
Title: Corporate Secretary	Title: Senior Vice President
-----	-----
	Executive:
	/s/ Nicholas DeBenedictis

Amendment No. 1

This Amendment No. 1 made as of February 1, 1999 to the Agreement between Philadelphia Suburban Corporation and Philadelphia Suburban Water Company (the "Company") and Roy H. Stahl (the "Executive") dated as of January 1, 1999 (the "Agreement").

WHEREAS, the Company and Executive recognize that the changes set forth below are necessary and appropriated to secure for both the Company and Executive the benefits contemplated by the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

Paragraph 12 of the Agreement is hereby deleted in its entirety and the following paragraph is inserted in its place:

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IN WITNESS WHEREOF, the parties hereto have signed this Amendment No. 1 as of the date set forth above.

Attest Philadelphia Suburban Corporation
By: /s/ Patricia M. Mycek
Title: Corporate Secretary

By: /s/ Nicholas DeBenedictis
Title: Chairman and President

Attest Philadelphia Suburban Water Company
By: /s/ Patricia M. Mycek
Title: Corporate Secretary

By: /s/ Nicholas DeBenedictis
Title: Chairman

Executive:
/s/ Roy H. Stahl

Amendment No. 1

This Amendment No. 1 made as of February 1, 1999 to the Agreement between Philadelphia Suburban Corporation and Philadelphia Suburban Water Company (the "Company") and Michael P. Graham (the "Executive") dated as of January 1, 1999 (the "Agreement").

WHEREAS, the Company and Executive recognize that the changes set forth below are necessary and appropriated to secure for both the Company and Executive the benefits contemplated by the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

Paragraph 12 of the Agreement is hereby deleted in its entirety and the following paragraph is inserted in its place:

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive's termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive's termination had occurred on the date of the Change of Control.

IN WITNESS WHEREOF, the parties hereto have signed this Amendment No. 1 as of the date set forth above.

Attest

Philadelphia Suburban Corporation

By: /s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

Title: Corporate Secretary

Title: Senior Vice President

Attest

Philadelphia Suburban Water Company

By: /s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

Title: Corporate Secretary

Title: Senior Vice President

Executive:

/s/ Michael P. Graham

Amendment No. 1

This Amendment No. 1 made as of February 1, 1999 to the Agreement between Philadelphia Suburban Corporation and Philadelphia Suburban Water Company (the "Company") and Richard R. Riegler (the "Executive") dated as of January 1, 1999 (the "Agreement").

WHEREAS, the Company and Executive recognize that the changes set forth below are necessary and appropriated to secure for both the Company and Executive the benefits contemplated by the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

Paragraph 12 of the Agreement is hereby deleted in its entirety and the following paragraph is inserted in its place:

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive's termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive's termination had occurred on the date of the Change of Control.

IN WITNESS WHEREOF, the parties hereto have signed this Amendment No. 1 as of the date set forth above.

Attest

Philadelphia Suburban Corporation

By: /s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

Title: Corporate Secretary

Title: Senior Vice President

Attest

Philadelphia Suburban Water Company

By: /s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

Title: Corporate Secretary

Title: Senior Vice President

Executive:
/s/ Richard R. Riegler

Amendment No. 1

This Amendment No. 1 made as of February 1, 1999 to the Agreement between Philadelphia Suburban Corporation and Philadelphia Suburban Water Company (the "Company") and Morrison Coulter (the "Executive") dated as of January 1, 1999 (the "Agreement").

WHEREAS, the Company and Executive recognize that the changes set forth below are necessary and appropriated to secure for both the Company and Executive the benefits contemplated by the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

Paragraph 12 of the Agreement is hereby deleted in its entirety and the following paragraph is inserted in its place:

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive's termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive's termination had occurred on the date of the Change of Control.

IN WITNESS WHEREOF, the parties hereto have signed this Amendment No. 1 as of the date set forth above.

Attest	Philadelphia Suburban Corporation
By: /s/ Patricia M. Mycek	By: /s/ Roy H. Stahl
-----	-----
Title: Corporate Secretary	Title: Senior Vice President
-----	-----

Attest	Philadelphia Suburban Water Company
By: /s/ Patricia M. Mycek	By: /s/ Roy H. Stahl
-----	-----
Title: Corporate Secretary	Title: Senior Vice President
-----	-----

Executive:
/s/ Morrison Coulter

PHILADELPHIA SUBURBAN CORPORATION
PHILADELPHIA SUBURBAN WATER COMPANY
1999 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- o During the first quarter of 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies and PSC's experience with incentive compensation.
- o The study included interviews with PSWC and PSC executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan"). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors feel it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).
- o The Plan has two components - a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.
- o The Plan is designed to provide an appropriate incentive to the officers and managers of the Company. The 1999 Management Incentive Program will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries, other than those employees covered under the Consumers Water Company Incentive Compensation Plan.
- o The plan is periodically reviewed by the Company's outside compensation consultant and the target bonus percentages are reviewed and approved each year as part of the compensation consultant's annual review of the Company's total compensation plan.

MANAGEMENT INCENTIVE PROGRAM

- o Performance Measures
 - Annual incentive bonus awards are calculated by multiplying an individual's Target Bonus by a Company Rating factor based on the Company's performance and an Individual Rating factor based on the individual employee's performance.

The approach of having a plan tied to the Company's income performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the Company and making its capital construction and acquisition programs possible. Customers also benefit from the Company's employees' objectives being met as improvements

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in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers.

- The Company's actual after-tax net income from continuing operations relative to the annual budget will be the primary measure for the Company's performance. Each year a "Target Net Income" level will be established. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 1999, the Target Net Income will include the impact of the merger with Consumers Water Company, but exclude the impact of any unbudgeted extraordinary gains or losses, changes in accounting principles, changes in tax rates or assessments, any gains or losses related to the discontinued operations and transaction costs related to the PSC/Consumers merger.

-- Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the Target Net Income. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target Net Income for the year. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income.

-- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation. Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity and enhancing customer service. Each objective has specific performance measures that are used to determine the level of achievement for each objective.

o Participation

-- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 50 percent of salary depending on duties and responsibilities.

-- Actual bonuses may range from 0, if the Company's financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance -- both Company and individual -- is rated at the maximum.

2

Company Performance

-- Company performance will be measured on the following schedule:

	Percent of 1999 Plan -----	Company Rating -----
Threshold.....	<90%	0%
	90	50
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan.....	100	100
	105	110
	<110	125

-- The actual Company Rating should be calculated by interpolation between the points shown in the table above.

-- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Rating for purposes of this Plan.

o Individual Performance

-- Individual performance will be measured on the following scale:

Performance Measure Points -----	Individual Rating -----
0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

-- In addition, up to 40 additional points and additional percentage points may be awarded to a participant at the discretion of the Chief Executive Officer for exemplary performance. Individual Performance points for the

Chief Executive Officer are determined by the Executive Compensation and Employee Benefits Committee.

3

Sample Calculations

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o Example 1

Salary	\$70,000
Target Bonus	10 percent (\$7,000)
Company Rating	100 percent
Individual Rating	90 percent

Calculation:

Target Bonus	x	Company Rating	x	Individual Rating	=	Bonus Earned
-----		-----		-----		-----
\$7,000	x	100%	x	90%	=	\$6,300
						=====

o Example 2

-- Using the same salary and target bonus, but assuming Company performance was less than 90 percent of Target Net Income, there would be no bonus earned.

Calculation:

\$7,000	x	0	x	90%	=	0
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o Example 3

-- Similarly, if individual Performance is rated below 70 points, no bonus would be earned regardless of the Company Rating.

Calculation:

\$7,000	x	100%	x	0	=	0
---------	---	------	---	---	---	---

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EMPLOYEE RECOGNITION ("CHAIRMAN'S AWARD") PROGRAM

- o In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman's Award program to reward employees not eligible for the management bonus plan for general superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action, or heroic deed, or for a project that positively impacts the performance or image of the Company.
- o Awards will be made from an annual pool, not to exceed \$175,000 (which represents approximately 2% of the base payroll for the non-union employees who do not participate in the Management Incentive Program), established at the beginning of the year. Unused funds will not be carried over to the next year. If financial performance warrants, management may request permission from the Executive Compensation and Employee Benefits Committee for special awards under the program.
- o Awards will be made throughout the year and through the first quarter of the following year with payment as close to the timing of the event being rewarded as possible.
- o Department Heads may nominate individuals in their unit to the applicable Vice President and document the reasons for the recommendations. The applicable Vice President will review the nominations and forward their recommendations to the Chief Executive Officer.

- o The Chief Executive Officer will determine the individuals to actually receive a bonus and the amount.

SELECTED PORTION OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 1998

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)

FORWARD-LOOKING STATEMENTS

This report contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things, Philadelphia Suburban Corporation ("PSC"): use of cash; projected capital expenditures; the 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 PSC'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 PSC deals. PSC undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL INFORMATION

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

On March 10, 1999, PSC completed a merger with Consumers Water Company ("CWC"). On the date of the merger, PSC issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary of PSC. CWC owns 100% of the voting stock of four water companies and at least 96% of the voting stock of three water companies. These water companies operate 27 divisions providing water and wastewater service to approximately 226,000 customers in Pennsylvania, Ohio, Illinois, New Jersey and Maine.

Because the merger was completed after December 31, 1998, the audited financial statements and management's discussion and analysis contained in this report, unless indicated or captioned otherwise, relate to PSC without consideration to the impact of the merger. For purposes of financial reporting, the merger will be accounted for under the pooling-of-interests method of accounting and, accordingly, future consolidated financial statements will be restated to include CWC's results of operations and financial position, as though they have been combined at the beginning of the periods presented.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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Following are selected five-year financial statistics for PSC:

Years ended December 31,	1998	1997	1996	1995	1994
Operating revenues	\$150,977	\$136,171	\$122,503	\$117,044	\$108,636
Income from continuing operations before income taxes	\$ 48,424	\$ 39,061	\$ 33,749	\$ 30,931	\$ 27,209
Operating Statistics					
Operating revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operations and maintenance	38.5%	41.1%	42.1%	44.2%	46.3%
Depreciation and amortization	10.7%	10.7%	10.9%	9.9%	9.5%
Taxes other than income taxes	6.6%	6.5%	6.8%	6.6%	6.6%
Interest expense*	12.6%	13.4%	12.9%	13.2%	12.7%
Allowance for funds used during construction	(0.5)%	(0.4)%	(0.2)%	(0.3)%	(0.1)%
Total costs and expenses	67.9%	71.3%	72.5%	73.6%	75.0%
Income from continuing operations before income taxes	32.1%	28.7%	27.5%	26.4%	25.0%
Effective tax rates	40.5%	40.6%	41.4%	41.7%	42.5%
Income from continuing operations as a percentage of average stockholders' equity	13.4%	12.4%	11.7%	12.0%	11.2%

*Includes dividends on preferred stock of PSW with mandatory redemption requirements.

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Following are selected five-year operating and sales statistics for PSW:

Years ended December 31,		1998	1997	1996	1995	1994
Daily sendout (Million gallons per day)	Maximum	139.4	142.5	109.5	121.8	110.4
	Average	108.8	103.8	94.2	92.6	89.8
Metered customers	Residential	278,436	268,550	265,746	248,500	234,624
	Commercial	15,032	13,512	13,422	12,019	11,071
	Industrial	744	708	716	554	539
	Other	5,638	4,746	4,257	3,792	3,299
	Total	299,850	287,516	284,141	264,865	249,533
Consumption per customer in gallons	Average	112,745	110,143	103,206	109,084	109,001
Revenues from water sales	Residential	\$ 96,330	\$ 88,542	\$ 79,056	\$ 77,744	\$ 69,483
	Commercial	32,058	28,048	26,504	24,368	23,431
	Industrial	6,303	5,170	4,823	4,512	4,737
	Other	12,653	10,874	9,950	9,249	9,151
	Total	\$147,344	\$132,634	\$120,333	\$115,873	\$106,802

RESULTS OF OPERATIONS

PSC's income from continuing operations has grown at an annual compound rate of approximately 15.8% during the five-year period ended December 31, 1998. During this same period, revenues and total expenses, other than income taxes, have grown at compound rates of 8.3% and 5.9%, respectively.

Operating Revenues

The growth in revenues over the past five years is a result of increases in the customer base and in water rates. The number of customers increased at an annual compound rate of 4.0% in the past five years primarily as a result of acquisitions of local water systems. Acquisitions made during the five-year period ended December 31, 1998 have provided water revenues of approximately \$18,164, \$11,130 and \$5,029 in 1998, 1997 and 1996, respectively. Excluding the effect of acquisitions, the customer base increased at a five-year

annual compound rate of 1.0%. Water rates have increased at an annual compound growth rate of 4.5% over the five-year period.

Water Rates - Rates charged by PSW for water service are subject to the approval of the Pennsylvania Public Utility Commission ("PUC"). PSW continuously reviews the necessity of filing applications with the PUC for increases in rates charged for water service. Management considers the following factors in determining the need to apply for increased rates:

- o the amount of utility plant additions and replacements made since the previous rate decision;
- o changes in the cost of capital and the capital structure of PSW; and

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- o changes since the previous rate decision in operating expenses (including wages, fringe benefits, electric and chemical expenses), depreciation and taxes.

Based on these assessments, PSW periodically files requests with the PUC to increase its rates. The PUC typically suspends rate requests for up to nine months during which time evidentiary hearings on the merits of the request are held. The positions of PSW, as well as the PUC staff, the Office of Consumer Advocate ("OCA") and other interested parties are presented and evaluated during these hearings.

In April 1997, PSW filed an application with the PUC to increase its rates by 13.2%. The request was suspended to allow the PUC staff, the OCA and other interested parties a period of additional discovery and to hold hearings on the merits of this request. Prior to the commencement of hearings, PSW reached a settlement with the OCA and the other interested parties. The settlement was subsequently approved by the PUC and it provided for a 7.3% increase over the rates that were in effect at the time of the filing. Since rates in effect at the time of the filing included a Distribution System Improvement Charge of 1% or \$1,300 on an annual basis, the settlement resulted in a total base rate increase of 8.3% or \$10,600 on an annual basis. The new base rates were effective on October 24, 1997. As part of the settlement, PSW has agreed not to file its next base rate increase request prior to April 1999, absent extraordinary circumstances.

In addition to the 1997 base rate increase, during the past five years base rates were increased 5.3% and 9.1% in 1995 and 1994, respectively. In recent years, PSW's utility plant additions, including acquisitions and the costs of the capital used to finance these acquisitions, were the most significant factor in determining the need for a rate increase and the actual rate increases granted.

Distribution System Improvement Charge - In 1996, the PUC approved the Distribution System Improvement Charge ("DSIC"). The DSIC is a mechanism that allows Pennsylvania water utilities to add a surcharge to their water bills. This surcharge offsets the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating distribution systems. Prior to the DSIC mechanism, water utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in base rates is known as regulatory lag. The DSIC mechanism is intended to eliminate or reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems.

The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. However, the DSIC may not exceed 5% of the base rates in effect. PSW resets the DSIC to zero when new base rates that reflect the costs of those additions become effective. The PUC also suspends the use of the DSIC in the quarter subsequent to a twelve-month period that a company's return on equity, adjusted for certain pro forma costs, exceeds a benchmark established by the PUC. The benchmark is established quarterly by

the PUC staff based on recent economic data.

The DSIC was 0.5% in the first quarter of 1997. Based on subsequent qualified capital expenditures the DSIC was increased to 1.0%, 1.4% and 1.82% in the second, third and fourth quarters of 1997, prior to the effective date of the new base rate increase, when the DSIC was reset to zero. The DSIC was 0.67% in the third quarter of 1998, but was suspended in the fourth quarter of 1998 as PSW's adjusted return on equity for the twelve months ending June 30, 1998 exceeded the PUC benchmark. Based on the adjusted return on equity for the twelve months ending September 30, 1998, the DSIC remained suspended in the first quarter of 1999. The adjusted return on equity for 1998 is expected to allow the DSIC to resume in the second quarter of 1999. Total DSIC revenues in 1998 and 1997 were \$229 and \$1,104, respectively.

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Rate Surcharges - In addition to increases in base rates and the DSIC, the PUC adjusts rates using a surcharge or credit to reflect changes in the state tax laws, which were not reflected in the base rates approved by the PUC. These adjustments are eliminated when the tax changes are reflected in base rates. In May 1998, a .11% credit was implemented as a result of a decrease in the statutory Pennsylvania Capital Stock tax rate. The tax credit reduced 1998 revenues by \$101. In February 1999, a 1.04% surcharge was implemented as a result of an increased Pennsylvania Public Utility Realty Tax. During 1995 and 1994, rates were reduced by various credits as a result of reductions in Pennsylvania Corporate Net Income Tax. These credits resulted in revenue reductions of \$504 in 1995 and \$97 in 1994.

Sendout - "Sendout" represents the quantity of treated water delivered to the distribution system. Management uses sendout as an indicator of customer demand and to accrue revenues. Consumption per customer is the sendout used by metered customers. Consumption per customer is based on the actual bills rendered during the year. The average annual consumption per customer for the past five years was 108,837 gallons. Weather conditions tend to impact water consumption, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. However, it is difficult to correlate weather and water consumption, since conservation and even day-to-day variations in weather patterns can have a significant effect. Conservation efforts, construction codes which require the use of low flow plumbing fixtures as well as mandated water use restrictions in response to drought conditions also may affect water consumption.

Over the past five years, sendout has increased primarily as a result of the growth in the number of customers. The average annual consumption per customer was higher than the five-year average in 1998 and in 1997 by 3.6% and 1.2%, and lower by 5.2% in 1996. The increase in the average consumption per customer in both 1998 and 1997 is attributable to the relatively hot, dry summers experienced in these years in contrast to 1996 when average consumption per customer was reduced by rainfalls that were well above average and temperatures that were cooler than normal during the spring and summer months.

In December 1998 and October 1997, the Delaware River Basin Commission ("DRBC") issued drought warnings for the Delaware River Basin, which includes PSW's service territory. The DRBC lifted the drought warnings in February 1999 and January 1998, respectively. Under a drought warning, the DRBC asks for voluntary restrictions on water use, particularly non-essential uses of water. Because these warnings were issued at times other than the summer months, when nonessential and recreational use of water has traditionally declined, the restrictions did not have a significant impact on PSW revenues. Throughout the drought warnings, PSW maintained adequate storage levels of treated water and had sufficient quantities of raw water.

Operations and Maintenance

Operations and maintenance expenses for 1998, 1997 and 1996, totaled \$58,174, \$55,899 and \$51,615, respectively. Most elements of operating costs are subject to the effects of inflation, as well as the effects of changes in the

number of customers served, in water consumption and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption and raw water quality. Maintenance expenses are sensitive to extreme cold weather, which can cause water mains to rupture.

Operations and maintenance expenses increased in 1998 over 1997 by \$2,275 or 4.1% primarily as a result the increase in the number of customers,

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increased wages and higher production costs resulting from the increased volume of water sold in 1998. The increased wages reflect normal merit increases. The increased operating costs were partially offset by the effects of the mild winter in early 1998 that resulted in fewer main breaks and reduced maintenance expenses and savings from reduced electric costs as a result of the electric deregulation pilot program in Pennsylvania.

Operations and maintenance expenses increased in 1997 over 1996 by \$4,284 or 8.3% primarily as a result of the increase in the number of customers, higher production costs resulting from the increased volume of water sold, and increased wage and administrative expenses, partially offset by lower maintenance expenses. Administrative costs increased as a result of increases in insurance costs and in the bad debt reserve, which is related to the increase in revenues. Maintenance expenses declined due to fewer main breaks as a result of the effects of the relatively mild 1997 winter.

For the past three years, parent company costs were less than 1% of the total company's operations and maintenance expenses. Such expenses include those unallocated general and administrative expenses associated with maintaining a publicly-held company.

Depreciation and Amortization

Depreciation expense was \$15,355, \$14,311 and \$13,068 in 1998, 1997 and 1996, respectively, and has increased principally as a result of the significant capital expenditures made to expand and improve the water utility facilities, and as a result of acquisitions of water systems. Depreciation expense was approximately 2.5%, 2.5% and 2.6% of the average balance of depreciable utility plant in service for 1998, 1997 and 1996, respectively. The decrease in the accrual rate from 1996 to 1997 is primarily due to the change in the nature or mix of the utility plant additions. A greater portion of capital additions in the last two years has been water main replacements and other infrastructure improvements that have longer depreciable lives. Amortization was \$734, \$269 and \$265 in 1998, 1997 and 1996. The increase in 1998 is due to the amortization of the costs of PSW's 1997 rate filing. The increase in 1997 over 1996 is due to the amortization of additional debt issuance expenses and amortization of the costs of PSW's 1997 rate filing, offset in part by the completion of amortization of the costs of PSW's 1995 rate filing. Expenses associated with filing rate cases are deferred and amortized over approximately 18 months.

Taxes Other than Income Taxes

Taxes other than income taxes increased by approximately 12.8% and 7.6% in 1998 and 1997 over the previous years, respectively. The increase in each year is associated with increases in the base on which the Pennsylvania Public Utility Realty Tax ("PURTA"), local real estate taxes and the Capital Stock Tax are calculated. The increase in the taxable base for the PURTA and local real estate taxes is due to the capital expenditures, and the acquisitions completed in the last three years. In addition, the effective PURTA tax rate increased in 1998 by 24%. The effective PURTA tax rate increased due to an additional tax assessment to offset a statewide deficit in the collection of this tax. The increase in the Capital Stock Tax is due to the increases in common equity over the past three years.

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Interest Expense

Interest expense was \$18,976, \$17,890 and \$15,311 in 1998, 1997 and 1996, respectively, and has increased in 1998 and 1997 primarily as a result of higher levels of borrowing offset in part by a reduction in interest rates. The level of debt increased in order to finance acquisitions and other capital expenditures made since 1996.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was \$736, \$522 and \$264 in 1998, 1997 and 1996, respectively, and has varied over the years as a result of increases in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate.

The average balance of CWIP to which AFUDC is applied was \$11,203, \$8,641 and \$4,441 in 1998, 1997 and 1996, respectively. The increase in 1998 in the average balance of CWIP was due to the increased level of capital expenditures in 1998 and 1997. AFUDC is not applied to projects after they are placed in service.

The AFUDC rate has varied due to changes in the interest rate on PSW's revolving credit facility. The average AFUDC rate was 5.9%, 6.1% and 6.1% in 1998, 1997 and 1996, respectively.

Income Taxes

PSC's effective income tax rate was 40.5% in 1998 as compared to 40.6% in 1997 and 41.4% in 1996. The changes in the effective tax rates in 1998 and 1997 are due to differences between tax deductible expenses and book expenses.

Discontinued Operations

In 1993, PSC completed the sale of the last of its nonregulated businesses. These businesses are accounted for as discontinued operations. In connection with the decision to sell these businesses, PSC established reserves to cover future costs and contingencies that PSC could be required to pay.

In 1996, PSC reversed \$965, net of related income taxes, of the reserves. The reversal was made as a result of: the receipt of contingent sales proceeds from one of the businesses that was sold; the passage of time, which reduced certain potential lease obligations; and the assessment of current information on potential legal claims related to these businesses. In 1997, PSC received additional sale proceeds of \$250 from one of the businesses sold and included the amount in Operating Revenues. The balance of the reserves for discontinued operations of \$1,008 at December 31, 1998 consists primarily of reserves for future and contingent costs, including potential lease, legal and insurance costs associated with these businesses.

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Summary

Operating income in 1998, 1997 and 1996 was \$66,679, \$56,799 and \$49,290, respectively, and income from continuing operations was \$28,819, \$23,188 and \$19,778, respectively, for the same periods. Diluted income per share from continuing operations in 1998, 1997 and 1996 was \$1.03, \$.88 and \$.78, respectively. The increases in the per share income in 1998 and 1997 over the previous years were due to the aforementioned improvements in profits offset in part by a 5.8% and 4.0% increase in the average number of common shares outstanding during 1998 and 1997, respectively.

Although PSC and PSW have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

Fourth Quarter Results

Net income available to common stock for the fourth quarter of 1998 increased over the same period in 1997 by \$1,029 to \$6,461 primarily as a result of a \$2,623 increase in revenues, offset in part by increases in operations and maintenance expenses, depreciation and interest expense. The increase in revenues was primarily a result of the number of customers added during the past year, the rate increase, which took effect October 24, 1997 and an increase in water sales. Operations and maintenance expenses increased primarily due to costs associated with the increase in the number of customers and the increased water sales. Depreciation increased due to utility plant additions and the acquisitions made since the fourth quarter of 1997. Interest increased in the fourth quarter primarily as a result of higher borrowing levels.

Effects of Inflation

As a regulated enterprise, PSW's rates are established to provide recovery of costs and a return on its investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on PSW's operating results are not significant.

Electric Deregulation

In December 1996, the Governor of Pennsylvania signed into law the Electricity Generation Customer Choice and Competition Act ("Electric Act") which provides for the restructuring of the electric utility industry in Pennsylvania. The Electric Act requires the unbundling of electric services into separate generation, transmission and distribution services and a transition charge with open competition for generation. The transition charge allows the electric utility, PECO Energy Company ("PECO"), to recover the costs of its assets stranded as a result of the restructuring of the electric industry.

Beginning in November 1997, approximately 18% of PSW's electricity requirements were selected to be included in the State's pilot implementation program. Under the pilot program, PSW was allowed to negotiate its electric generation rates and the total rates for those accounts were reduced by approximately 13% from the rates paid just prior to the pilot program. Prior to the pilot program, PSW had purchased all of its electricity from PECO. PSW estimates that it saved \$130 in electric costs in 1998 as a result of its participation in the pilot program.

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On May 14, 1998, the PUC issued a final restructuring order approving a settlement reached with PECO as to the ultimate implementation of the Electric Act. As a result, PSW was allowed to select an electric generation provider for all of its accounts for service rendered after January 2, 1999. PSW has an agreement with a generation supplier, fixing the costs of PSW's generation rates until June 2000. The total electric cost for 1998 was approximately \$8,815. PSW estimates that its average electric rate for all of its accounts in 1999 will be approximately 15% lower than the average rate paid in 1998. Since electric usage is dependent on water demand, the exact savings in electric costs cannot be determined at this time.

YEAR 2000

Overview

PSC is actively pursuing a Year 2000 Program (the "Program"). The objective of the Program is to provide reasonable assurance that PSC's critical systems and processes that impact PSC'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 PSC'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. PSC'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 PSC'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; (iv) testing the remediation measures that are implemented; and (v) developing contingency plans. In addition to PSC'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 PSC'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 for the 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.

PSC's State of Readiness

Internal Systems and Processes - PSC 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 was completed in November 1998. An assessment of Year 2000 issues for PSC's critical systems was completed in December 1998. As a result of the assessment, it was determined that none of the internal systems and processes directly related to the treatment and distribution of water to its customers would be significantly affected by the Year 2000 issue. Some financial and office systems may be affected and the remediation or replacement and testing of these systems has started. It is anticipated that remediation or replacement and testing of these systems will be completed by mid-1999.

Relationships with Third Parties - PSC'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 1998 revenues,

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approximately 65% of PSW's revenues are from residential customers, 22% 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. PSW's industrial customers represent approximately 4% of its total 1998 revenues and PSW 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 PSW's 1998 revenues. PSC 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 PSW's water treatment and distribution systems, electric power supply may be the most critical supplier relationship. To date, PSW'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 PSC's Year 2000 Program.

The Costs to Address PSC's Year 2000 Issues

PSC estimates its cost to date for its Year 2000 Program to be approximately \$3,200, which includes the costs to develop a new customer billing system that PSW is implementing to provide added capacity and capabilities. PSC presently estimates that it will spend an additional amount of approximately \$1,500 to bring all of its critical systems into compliance.

The Risks of PSC'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 PSW's water service and results of operations, liquidity and financial condition. Because of the uncertainty inherent in the Year 2000 issue, due primarily from the uncertainty of the Year 2000 readiness of third party suppliers, PSC is unable to determine at this time whether the consequences of Year 2000 noncompliances will have a material impact on PSC. PSC's Year 2000 Program is expected to significantly reduce PSC's level of uncertainty about the Year 2000 issue and, in particular, about the Year 2000 compliance and readiness of its key vendors and suppliers. PSC believes that, with the completion of its Program, the possibility of significant interruptions of normal operations should be reduced.

PSC's Contingency Plans

PSC is evaluating contingency plans in the event that any critical systems or processes or vendor relationships 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 PSW's ability to deliver water to its customers. PSC intends to complete its contingency planning process for its mission critical systems by March 1999.

Forward-looking Statements

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

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FINANCIAL CONDITION

Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1998 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1994	\$ 29,125	\$ 12,637	\$ 27,379
1995	33,079	13,546	33,182
1996	38,082	14,795	31,389
1997	42,377	16,129	38,960
1998	55,205	18,313	58,922
	\$ 197,868	\$ 75,420	\$ 189,832

Included in capital expenditures for the five-year period are: \$2,853 for the construction of a surface water treatment plant; \$14,396 for the modernization of existing treatment plants; \$26,642 for new water mains and customer service lines; \$39,515 for the rehabilitation of existing water mains; \$12,293 to rehabilitate hydrants and customer service lines; \$21,013 for water

meters; and \$4,945 for the construction of a divisional operations center. During this five-year period, PSW received \$9,953 of customer advances and contributions in aid of construction to finance new water mains. In addition to its capital program, PSW has made sinking fund contributions aggregating \$5,103, retired \$47,150 of debt and \$10,000 of preferred stock, and has refunded \$14,067 of customer advances for construction. PSW has also expended \$98,911 related to the acquisition of 22 water systems and 2 small wastewater utilities since the start of 1994.

Since net operating cash flow to PSW plus advances and contributions in aid of construction have not been sufficient to fully fund its cash requirements, PSW issued approximately \$139,000 of First Mortgage Bonds and received \$23,810 of equity investments from PSC during the past five years.

PSC has funded its investment in PSW with the proceeds from the sale of stock. In February 1998, PSC sold 1,250,000 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 to PSW and to repay short-term debt.

PSC has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that replaced the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan in December 1997. Under the direct stock purchase portion of the Plan, shares are sold throughout the year and the shares are obtained by PSC's transfer agent in the open market instead of PSC original issue shares of stock, as was done under the previous plan. The dividend reinvestment portion of the Plan continues to offer a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 1998 dividend payment, holders of 22% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. During the past five years, PSC has sold 1,193,716 original issue shares of

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

common stock for net proceeds of \$15,169 through its dividend reinvestment program. Before its replacement in December 1997, over the past five years PSC has sold 1,757,534 original issue shares of common stock for net proceeds of \$19,296 through its former Customer Stock Purchase Plan. Proceeds from these plans were used to invest in PSW, to relieve PSW of the need to pay a dividend to PSC, to repay short-term debt, and for general corporate purposes.

In August 1997, the Board of Directors approved a resolution authorizing PSC to purchase, from time to time, 669,612 shares of its common stock in the open market or through privately negotiated transactions. A similar resolution was approved in 1993. Management has used this authority, from time to time, to offset the dilutive effect on earnings per share resulting from the original issue shares issued through the plans previously discussed. During 1998, 1997 and 1996, PSC purchased 151,406, 152,000 and 4,339 shares at a net cost of \$3,333, \$2,284 and \$52, respectively. As of December 31, 1998, the remaining number of shares PSC may purchase under the Board of Director's authorization, after adjusting for a stock split in the form of a stock dividend, is 476,739. Funding for future stock purchases, if any, is not expected to have a material impact on PSC's financial position.

PSW's planned 1999 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$56,000 of which \$30,000 is for DSIC qualified projects. PSW has increased its capital spending for infrastructure rehabilitation in response to the DSIC. Should the DSIC be discontinued for any reason, which is not anticipated, PSW would likely reduce its capital program significantly. The 1999 capital program, along with \$2,452 of sinking fund obligations and \$1,460 of preferred stock redemptions by PSC is expected to be financed through internally-generated funds, the revolving credit facility, and issuance of new long-term debt.

PSW continues to hold acquisition discussions with several water systems that are near or adjacent to PSW's service territory. The cash needed for acquisitions is expected to be funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or equity investments from PSC.

Future utility construction in the period 2000 through 2003, including recurring programs, such as the ongoing replacement of water meters, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$240,000, the majority of which will be DSIC qualified projects to rehabilitate the distribution system. PSC anticipates that approximately 50% of these expenditures will require external financing including the additional issuance of Common Stock through PSC's dividend reinvestment plan and possible future public equity offerings. PSC expects to refinance \$50,660 of debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

PSW's ability to finance its future construction programs, as well as its acquisition activities, depends on its ability to attract the necessary external financing and maintain or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required to allow PSW to achieve an adequate level of earnings to enable it to secure the capital it will need and to maintain satisfactory debt coverage ratios.

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)

Capitalization

The following table summarizes PSC's capitalization during the past five years:

December 31,	1998	1997	1996	1995	1994
Long-term debt*	53.0%	54.2%	55.3%	53.5%	49.9%
Preferred stock*	0.6%	1.7%	2.1%	2.0%	3.3%
Common stockholders' equity	46.4%	44.1%	42.6%	44.5%	46.8%
	100.0%	100.0%	100.0%	100.0%	100.0%

*Includes current portion.

The changes in the capitalization ratios result from the issuance of common stock over the past five years and the issuance of debt by PSW to finance its acquisitions and capital program. It is PSC's and PSW's goal to maintain an equity ratio adequate to support PSW's current Standard and Poors debt rating of "A+".

IMPACT OF CONSUMERS WATER COMPANY MERGER

On March 10, 1999, PSC completed a merger ("the Merger") with Consumers Water Company ("CWC"). On the date of the Merger, PSC issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary of PSC. CWC owns 100% of the voting stock of four water companies and at least 96% of the voting stock of three water companies. These water companies operate 27 divisions providing water and wastewater service to approximately 226,000 customers in Pennsylvania, Ohio, Illinois, New Jersey and Maine. The following table provides key operating and financial highlights of CWC:

	December 31,	
	1998	1997
Net property, plant and equipment	\$ 406,386	\$ 418,143
Total assets	456,291	465,699
Total long-term debt	152,012	172,607

Total capitalization	270,341	284,678	
	Years ended December 31,		

	1998	1997	1996

Operating revenues	\$ 99,741	\$ 98,991	\$ 93,810
Operating income	32,835	32,470	28,718
Income from continuing operations	16,196	12,022	9,426
Net income available to common stock	16,196	9,285	6,196

Income from continuing operations for 1998 includes the April 1998 net gain of \$3,903 (\$6,680 before taxes) on the sale of CWC's New Hampshire operations pursuant to the State's condemnation statute. The New Hampshire system had operating revenues of \$1,600 in 1998 prior to the sale, \$6,500 in 1997 and \$6,400 in 1996. During 1997, CWC discontinued the operations of its non-regulated technical service company, Consumers Applied Technologies, Inc., and recorded losses on discontinued operations of \$2,737 and \$3,230 in 1997 and 1996, respectively.

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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)

For purposes of financial reporting, the Merger will be accounted for under the pooling-of-interests method of accounting. Accordingly, the assets and liabilities of PSC and CWC will be combined at their historical amounts. As required by the pooling-of-interests method, future consolidated financial statements will be restated to include CWC's results of operations and financial position, as though they have been combined at the beginning of the periods presented.

PSC has deferred the merger-related costs paid during 1998, consisting primarily of fees for investment bankers, attorneys, accountants, financial printing and other administrative charges. In the first quarter of 1999, PSC will charge-off the merger-related costs paid in 1998 and 1999, and the restructuring costs that includes severance and other costs associated with the closing of CWC's corporate office. As of December 31, 1998, \$1,050 was deferred by PSC and the total charge for the merger, including costs incurred by CWC, is expected to approximate \$9,700, net of tax benefits of \$1,000.

The following selected unaudited pro forma combined financial data has been derived from the historical financial statements of PSC and CWC and give effect to the Merger as though they have been combined at the beginning of the periods presented. This information is not necessarily indicative of the financial results that would have occurred had the Merger been consummated on the dates for which the Merger is being given effect, or the merged companies' future financial results, and should be read in conjunction with the historical financial statements of PSC and CWC.

	December 31,		

	1998	1997	

Net property, plant and equipment	\$1,016,194	\$ 952,626	
Total assets	1,156,733	1,083,162	
Total long-term debt	416,290	407,526	
Total capitalization	769,378	718,556	
	Years ended December 31,		

	1998	1997	1996

Operating revenues	\$ 250,718	\$ 235,162	\$ 216,313
Operating income	99,514	89,269	78,008
Income from continuing operations	45,015	35,210	29,204
Net income available to common stock	44,820	32,278	26,918
Diluted net income per common share:			
Income from continuing operations	1.10	0.90	0.77
Net income	1.10	0.83	0.71

PSC expects to achieve some level of cost reductions primarily as a result of combining certain management and administrative functions and accomplishing certain other economies of scale in purchasing and other areas. PSC is still in the process of evaluating the nature and the amount of those savings. However, due to the nature of the rate making process, most of these synergies will be used to minimize rate increases in the future. In addition, PSC intends to look for additional acquisition opportunities, consistent with PSW's growth strategy, in the areas near to CWC's operating service territories.

CWC's planned 1999 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$29,000 of which \$13,300 will be used to construct the Shenango plant. The balance of the capital expenditures will be used for routine system replacements

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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)

and betterments and to expand service territories. The 1999 capital program, along with \$529 of sinking fund obligations and long-term debt retirements is expected to be financed through internally-generated funds, existing credit facilities and the issuance of new long-term debt.

CWC's capital program for the years 2000 and 2001 is expected to approximate \$25,000 per year. The capital program, along with sinking fund obligations and long-term debt retirements in those years of \$13,024 is expected to be financed through internally generated funds, the issuance of new long-term debt and, where appropriate, equity contributions from PSC.

CWC's ability to finance its future construction programs, as well as its acquisition activities, depends on its ability to attract the necessary external financing and maintain or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required to allow CWC to achieve an adequate level of earnings to enable it to secure the capital it will need and to maintain satisfactory debt coverage ratios.

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. PSC 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"). This Statement 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 establishes standards for related disclosure about products and services, geographic areas and major customers. PSC adopted this statement on January 1, 1998, as required. The adoption of this Statement did not affect results from operations, financial conditions or long-term liquidity.

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." PSC has adopted this statement in its 1998 Annual Report as required.

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." PSC 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 PSC's results from operations or financial condition.

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 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. PSC plans to adopt this statement in 2000 as required. As of December 31, 1998, PSC had no derivative instruments or hedging activities.

DIVIDENDS ON COMMON STOCK

Following is a recent history of PSC's income from continuing operations and dividends:

	Cash dividend per common share	Basic income per share from continuing operations	Dividend payout ratio
1994	\$ 0.55	\$ 0.68	81%
1995	0.57	0.75	76%
1996	0.59	0.79	75%
1997	0.62	0.89	70%
1998	0.67	1.04	64%

Dividends have averaged approximately 72% of income from continuing operations during this period. In 1998, the dividend rate increased by 4.6%. As a result, beginning with the dividend payable in September 1998, the annual dividend rate increased to \$.68 per share.

MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1998, 1997 and 1996 were prepared by management in accordance with generally accepted accounting principles and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility and dissemination of policies and procedures.

The Company's independent auditors, KPMG LLP, provide an independent review of management's reporting of results of operations and financial condition. KPMG has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is comprised of three outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1998.

Nicholas DeBenedictis
Chairman &
President

Michael P. Graham
Senior Vice President - Finance
& Treasurer

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INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, and cash flow for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
February 1, 1999, except as to the information included under the caption "Merger with Consumers Water Company" on pages 26 and 27 and in the second paragraph on page 23 which are as of March 10, 1999

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CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
Years ended December 31, 1998, 1997 and 1996

	1998	1997	1996
Operating revenues	\$ 150,977	\$ 136,171	\$ 122,503
Costs and expenses:			
Operations and maintenance	58,174	55,899	51,615
Depreciation	15,355	14,311	13,068
Amortization	734	269	265
Taxes other than income taxes	10,035	8,893	8,265
	84,298	79,372	73,213
Operating income	66,679	56,799	49,290
Interest expense	18,976	17,890	15,311
Dividends on preferred stock of subsidiary	15	370	494
Allowance for funds used during construction	(736)	(522)	(264)
	48,424	39,061	33,749
Income from continuing operations before income taxes	48,424	39,061	33,749
Provision for income taxes	19,605	15,873	13,971
	28,819	23,188	19,778
Income from continuing operations	28,819	23,188	19,778
Reversal of reserve for discontinued operations, net of income tax of \$520 in 1996	-	-	965
	28,819	23,188	20,743
Net income	28,819	23,188	20,743
Dividends on preferred stock	195	195	21
	\$ 28,624	\$ 22,993	\$ 20,722
Net income available to common stock	\$ 28,624	\$ 22,993	\$ 20,722
Basic net income per common share:			
Continuing operations	\$ 1.04	\$ 0.89	\$ 0.79
Discontinued operations	-	-	0.04
Total	\$ 1.04	\$ 0.89	\$ 0.83
Diluted net income per common share:			
Continuing operations	\$ 1.03	\$ 0.88	\$ 0.78
Discontinued operations	-	-	0.04
Total	\$ 1.03	\$ 0.88	\$ 0.82
Average common shares outstanding during the period			
Basic	27,408	25,908	24,966
Diluted	27,876	26,273	25,262

See accompanying notes to consolidated financial statements.

Assets		
Property, plant and equipment, at cost	\$ 745,532	\$ 656,011
Less accumulated depreciation	135,724	121,528
	-----	-----
Net property, plant and equipment	609,808	534,483
	-----	-----
Current assets:		
Cash	664	680
Accounts receivable and unbilled revenue, net	27,231	23,534
Inventory, materials and supplies	1,909	1,847
Prepayments and other current assets	1,152	1,002
	-----	-----
Total current assets	30,956	27,063
	-----	-----
Regulatory assets	53,578	51,203
Deferred charges and other assets, net	7,108	5,723
	-----	-----
	\$ 701,450	\$ 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 100,000,000 shares, outstanding 27,726,654 and 26,210,654 in 1998 and 1997	14,130	13,294
Capital in excess of par value	160,440	128,065
Retained earnings	66,447	56,136
Treasury stock, 533,292 and 376,510 shares in 1998 and 1997	(9,478)	(5,970)
	-----	-----
Total stockholders' equity	234,759	194,745
	-----	-----
Long-term debt, excluding current portion	261,826	232,471
Commitments	-	-
Current liabilities:		
Current portion of long-term debt and preferred stock of subsidiary	2,452	6,662
Loans payable	5,305	10,400
Accounts payable	16,694	10,259
Accrued interest	4,453	3,978
Accrued taxes	5,991	3,643
Other accrued liabilities	9,961	9,755
	-----	-----
Total current liabilities	44,856	44,697
	-----	-----
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	91,128	83,129
Customers' advances for construction	35,853	31,902
Other	6,808	6,588
	-----	-----
Total deferred credits and other liabilities	133,789	121,619
	-----	-----
Contributions in aid of construction	26,220	24,940
	-----	-----
	\$ 701,450	\$ 618,472
	=====	=====

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 1998 and 1997

	1998	1997
	-----	-----
Stockholders' equity:		

6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock, \$.50 par value	14,130	13,294
Capital in excess of par value	160,440	128,065
Retained earnings	66,447	56,136
Treasury stock	(9,478)	(5,970)
Total stockholders' equity	234,759	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:		
Interest Rate Range		
5.50% to 5.99%	11,600	2,000
6.00% to 6.49%	42,000	32,000
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	40,000	42,000
7.50% to 7.99%	15,000	15,000
9.00% to 9.49%	45,000	45,000
9.50% to 9.99%	15,000	15,000
Total First Mortgage Bonds	223,800	206,200
Note payable to bank under revolving credit agreement, due March 2000	38,935	27,128
Installment note payable, 9%, due in equal annual payments through 2013	1,543	1,591
	264,278	234,919
Current portion of long-term debt	2,452	2,448
Long-term debt, excluding current portion	261,826	232,471
Total capitalization	\$ 496,585	\$ 427,216

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 1998, 1997 and 1996

	1998	1997	1996
Cash flows from operating activities:			
Income from continuing operations	\$ 28,819	\$ 23,188	\$ 19,778
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	16,089	14,580	13,333
Deferred income taxes	5,016	4,331	3,287
Net increase in receivables, inventory and prepayments	(3,857)	(1,396)	(517)
Net increase in payables, accrued interest and other accrued liabilities	9,867	2,354	1,749
Other	(729)	(680)	452
Net cash flows from operating activities	55,205	42,377	38,082
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$736, \$522 and \$264	(58,922)	(38,960)	(31,389)
Acquisitions of water and wastewater systems	(24,498)	(1,226)	(42,122)
Other	(965)	(535)	24
Net cash flows used in investing activities	(84,385)	(40,721)	(73,487)

Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	1,555	1,059	577
Repayments of customers' advances	(1,984)	(3,048)	(2,909)
Net proceeds (repayments) of short-term debt	(5,095)	4,840	(895)
Proceeds from long-term debt	31,586	29,665	64,256
Repayments of long-term debt including premium on early retirement	(2,448)	(25,042)	(24,094)
Redemption of preferred stock of subsidiary	(4,214)	(1,428)	(1,500)
Proceeds from issuing common stock	32,119	10,695	14,651
Repurchase of common stock	(3,801)	(2,829)	(760)
Dividends paid on preferred stock	(195)	(195)	(4)
Dividends paid on common stock	(18,313)	(16,129)	(14,795)
Other	(46)	(82)	(167)

Net cash flows from (used in) financing activities	29,164	(2,494)	34,360

Net cash flows from discontinued operations	-	-	176

Net decrease in cash	(16)	(838)	(869)
Cash balance beginning of year	680	1,518	2,387

Cash balance end of year	\$ 664	\$ 680	\$ 1,518
=====			

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Acquisitions and Employee Stock and Incentive Plans footnotes for description of non-cash investing and financing activities. See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Summary of Significant Accounting Policies

Nature of Operations - The business of Philadelphia Suburban Corporation (the "Company") is conducted primarily through its subsidiary Philadelphia Suburban Water Company ("PSW"). PSW is a regulated public utility which supplies water to approximately 300,000 customers. The customers are residential, commercial and industrial in nature, and no single customer accounted for more than one percent of PSW's sales. The service territory of PSW covers a 481 square mile area located west and north 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. PSW is subject to regulation by the Pennsylvania Public Utility Commission ("PUC") which has jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters.

On March 10, 1999, the Company completed a merger with Consumers Water Company ("CWC"). On the date of the merger, the Company issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary of the Company. CWC owns 100% of the voting stock of four water companies and at least 96% of the voting stock of three water companies. These water companies operate 27 divisions providing water and wastewater service to approximately 226,000 customers in Pennsylvania, Ohio, Illinois, New Jersey and Maine. Because the merger was completed after December 31, 1998, the consolidated financial statements and footnotes contained in this report, unless indicated or captioned otherwise relate to the Company without consideration to the impact of the merger.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries as of December 31, 1998, all of which are wholly-owned. All material intercompany accounts and transactions have been eliminated.

Recognition of Revenues - Revenues include amounts billed to customers on a

cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-utility revenues are recognized when services are performed.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 1998, utility plant includes a credit acquisition adjustment of \$6,261, which is being amortized over 20 years. Consistent with PSW's rate settlements, \$448 was amortized during 1998, \$449 was amortized during 1997 and \$526 was amortized during 1996.

Utility expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the Uniform System of Accounts prescribed by the PUC. The cost of new units of property and betterments are capitalized. When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The straight-line remaining life method is used to compute depreciation on utility plant. The straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

In accordance with the requirements of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and a regulatory asset, have been reviewed for impairment. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. There was no AFUDC related to equity funds in any of the years presented.

Deferred Charges and Other Assets - Deferred bond and preferred stock issuance expenses are amortized by the straight-line method over the life of the related issues.

Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption.

Expenses associated with filing for rate increases are deferred and amortized over approximately 18 months. Other costs, for which PSW has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities and the amounts at which they are carried in

the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse.

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse PSW its costs to construct water mains, are contributed to PSW by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. PSW makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of \$5,498 in 1998 and \$3,997 in 1997.

Contributions in Aid of Construction - Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Inventories, Materials and Supplies - Inventories are stated at cost, not in excess of market value. Cost is determined using the first-in, first-out method.

Stock-Based Compensation - The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", electing the provision of the statement allowing it to continue its practice of not recognizing compensation expense related to granting of stock options to the extent that the option price of the underlying stock was equal to, or greater than, the market price on the date of option grant. Disclosure of the impact on the results of operations, had the Company elected to recognize compensation expense, is provided in the Employee Stock and Incentive Plans footnote as required by the Statement.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year's presentation.

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Merger with Consumers Water Company

On March 10, 1999, the Company completed a merger ("the Merger") with Consumers Water Company ("CWC"). The Merger was effected pursuant to a June 27, 1998 merger agreement, as amended and restated by the parties effective as of August 5, 1998. The Merger was completed after the transaction received the approvals from the state utility commissions in each state in which the companies operate. The shareholders of each company approved the Merger at special meetings held on November 16, 1998. Pursuant to the merger agreement, the Company issued 13,014,015 shares of common stock in exchange for all of the outstanding stock of CWC. CWC common shareholders received 1.432 shares of the Company's Common Stock for each CWC common share and CWC preferred shareholders received 5.649 shares of the Company's Common Stock for each preferred share. As a result of the Merger, CWC became a wholly-owned subsidiary of the Company. The Merger will be accounted for as a pooling-of-interests under Accounting Principles Board Opinion No. 16. CWC serves approximately 226,000 customers in service territories covering parts of Pennsylvania, Ohio, Illinois, New Jersey and Maine.

The Company has deferred the merger-related costs paid during 1998, consisting primarily of fees for investment bankers, attorneys, accountants, financial printing and other administrative charges. In the first quarter of 1999, the Company will charge-off the merger-related costs paid in 1998 and 1999, and the restructuring costs that includes severance and other costs associated with the closing of CWC's corporate office. As of December 31, 1998, \$1,050 was deferred by PSC and the total charge for the Merger, including costs incurred by CWC, is expected to approximate \$9,700, net of tax benefits of \$1,000.

The following selected unaudited pro forma combined financial data has been derived from the historical financial statements of PSC and CWC and give effect to the Merger as though they have been combined at the beginning of the periods presented. This information is not necessarily indicative of the financial results that would have occurred had the Merger been consummated on the dates for which the merger is being given effect, or the merged companies' future financial results, and should be read in conjunction with the historical financial statements of PSC and CWC.

	December 31,		
	1998	1997	

	(unaudited)		
Net property, plant and equipment	\$1,016,194	\$ 952,626	
Total assets	1,156,733	1,083,162	
Total long-term debt	416,290	407,526	
Total capitalization	769,378	718,556	

	Years ended December 31,		
	1998	1997	1996

	(unaudited)		
Operating revenues	\$ 250,718	\$ 235,162	\$ 216,313
Operating income	99,514	89,269	78,008
Income from continuing operations	45,015	35,210	29,204
Net income available to common stock	44,820	32,278	26,918
Diluted net income per common share:			
Income from continuing operations	1.10	0.90	0.77
Net income	1.10	0.83	0.71

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Income from continuing operations for 1998 includes the April 1998 net gain of \$3,903 (\$6,680 pre-tax) or \$0.10 per share on the sale of CWC's New Hampshire operations pursuant to the State's condemnation statute. The New Hampshire system had operating revenues of \$1,600 in 1998 prior to the sale, \$6,500 in 1997 and \$6,400 in 1996. During 1997, CWC discontinued the operations of its non-regulated technical service company, Consumers Applied Technologies, and recorded losses on discontinued operations of \$2,737 and \$3,230 in 1997 and 1996, respectively.

Acquisitions and Water Sale Agreements

During 1998, PSW made the following acquisitions and obtained related service territory rights: in January, the water utility assets of West Chester Municipal Authority; in June, the water utility assets of the Flying Hills Water Company; and at various times during 1998, the water utility assets of two small water systems and the origination of two long-term water sale agreements. The systems acquired in 1998 incorporate 17 square miles of service area near or adjacent to PSW's existing territory. The total purchase price for the four water systems acquired in 1998 was \$24,498 in cash and the issuance of 42,000 shares of the Company's common stock. The annual revenues from the acquired systems approximate \$4,800, and revenues included in the consolidated financial statements during the period owned by PSW were \$4,627. The annual revenues from

the water sale agreements are expected to approximate \$500.

During 1997, PSW made the following acquisitions and obtained related service territory rights: in January, the water utility assets of Cherry Water Company; in September, the water utility assets of Perkiomen Township and in September, both the water and wastewater utility assets of the Peddler's View Utility Company. The systems acquired in 1997 incorporate two square miles of service area near PSW's existing territory. The total purchase price for the three water systems and wastewater system acquired in 1997 was \$1,226. Revenues included in the consolidated financial statements related to the systems acquired in 1997 were \$367 in 1998 and \$175 in 1997.

During 1996, PSW made the following acquisitions and obtained related service territory rights: in October the water utility assets of Hatboro Borough Authority; in November, Utility Group Services Corporation ("UGS") which owned three water utilities and a wastewater utility; in December, the water utility assets of Bristol Borough Water and Sewer Authority; and at various times during 1996 the water utility assets of three smaller water systems. The total purchase price for the eight water systems and wastewater system acquired in 1996 was \$47,889, including the issuance of \$3,220 of the Company's preferred stock and the assumption of \$2,547 in liabilities. These systems have a combined service territory of 64 square miles. Revenues included in the consolidated financial statements related to the systems acquired in 1996 were \$6,680 in 1998, \$5,902 in 1997 and \$466 in 1996.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Property, Plant and Equipment

	December 31,	
	1998	1997
Utility plant and equipment	\$735,813	\$641,303
Utility construction work in progress	7,449	12,426
Non-utility plant and equipment	2,270	2,282
Total property, plant and equipment	\$745,532	\$656,011

Depreciation is computed based on estimated useful lives of 5 to 110 years for utility plant and 3 to 10 years for both utility transportation and mechanical equipment and all non-utility plant and equipment.

Accounts Receivable

	December 31,	
	1998	1997
Billed water revenue	\$ 12,911	\$ 9,230
Unbilled water revenue	14,349	13,949
Other	471	855
	27,731	24,034
Less allowance for doubtful accounts	500	500
Net accounts receivable	\$ 27,231	\$ 23,534

All of the Company's customers are located in southeastern Pennsylvania. No single customer accounted for more than one percent of the Company's sales in 1998 or 1997 and no account receivable from any customer exceeded one percent of the Company's total stockholders' equity.

Regulatory Asset

The regulatory asset represents costs that have been prudently incurred and are expected to be fully recovered in future rates. The two components of this asset are deferred income taxes and postretirement benefits other than pensions. Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. The portion of the asset related to postretirement benefits other than pensions represents costs that were deferred during the period that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates in 1994. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

	December 31,	
	1998	1997
Income taxes	\$ 51,764	\$ 49,229
Postretirement benefits other than pensions	1,814	1,974
	\$ 53,578	\$ 51,203

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Income Taxes

Total income tax expense is allocated as follows:

	Years Ended December 31,		
	1998	1997	1996
Income from continuing operations	\$ 19,605	\$ 15,873	\$ 13,971
Common stockholders' equity related to stock option activity which reduces taxable income	(402)	(401)	(126)
Discontinued operations	-	-	520
	\$ 19,203	\$ 15,472	\$ 14,365

Income tax expense attributable to income from continuing operations consists of:

	Years Ended December 31,		
	1998	1997	1996
Current:			
Federal	\$ 10,559	\$ 8,742	\$ 8,084
State	4,030	2,800	2,600
	14,589	11,542	10,684
Deferred:			
Federal	4,934	4,004	3,002
State	82	327	285
	5,016	4,331	3,287

Total tax expense	\$ 19,605	\$ 15,873	\$ 13,971
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The significant components of deferred income tax expense are as follows:

	Years Ended December 31,		
	1998	1997	1996
Excess of tax over financial statement depreciation	\$ 5,333	\$ 3,308	\$ 2,458
Amortization of deferred investment tax credits	(100)	(105)	(115)
Current year investment tax credits deferred	20	35	40
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation	1,366	860	770
Pension, deferred compensation and other postretirement benefits	(715)	(151)	(91)
Customers' advances for construction, net	352	556	196
Other, net	(1,240)	(172)	29
Total deferred income tax expense	\$ 5,016	\$ 4,331	\$ 3,287

The statutory Federal tax rate is 35% and the Pennsylvania Corporate Net Income Tax rate is 9.99% for all years presented.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income from continuing operations before Federal tax and the actual Federal tax expense are as follows:

	Years Ended December 31,		
	1998	1997	1996
Computed Federal tax expense at statutory rate	\$ 15,441	\$ 12,508	\$ 10,795
Increase (decrease) in tax expense for items to be recovered in future rates:			
Depreciation expense	66	70	179
Losses on asset disposals	-	(2)	(12)
Amortization of deferred investment tax credits	(100)	(105)	(115)
Preferred stock dividend	73	197	180
Other, net	13	78	59
Actual Federal tax expense	\$ 15,493	\$ 12,746	\$ 11,086

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	----- 1998	1997 -----
Deferred tax assets:		
Customers' advances for construction	\$ 8,827	\$ 9,198
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	2,728	2,393
Other	406	642
	-----	-----
Total gross deferred tax assets	11,961	12,233
	-----	-----
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	78,711	71,888
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	20,240	18,937
Deferred investment tax credit	4,138	4,218
Other	-	319
	-----	-----
Total gross deferred tax liabilities	103,089	95,362
	-----	-----
Net deferred tax liability	\$ 91,128	\$ 83,129
	=====	=====

The Company made income tax payments, which include amounts related to discontinued operations, of \$11,273, \$11,346 and \$10,199 in 1998, 1997 and 1996, respectively. The Company's Federal income tax returns for all years through 1995 have been closed.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Commitments

PSW maintains agreements with the Chester Water Authority and the Bucks County Water and Sewer Authority for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2017. The estimated annual commitments related to such purchases total approximately \$2,852 through 2003. PSW purchased approximately \$3,012, \$2,978 and \$2,889 of water under these agreements during the years ended December 31, 1998, 1997 and 1996, respectively.

PSW leases motor vehicles and other equipment under operating leases that are noncancelable and expire on various dates through 2003. During the next five years, \$2,325 of future minimum lease payments are due: \$990 in 1999, \$671 in 2000, \$509 in 2001, \$120 in 2002 and \$35 in 2003. PSW leases parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The operating lease is noncancelable, expires in 2045 and contains certain renewal provisions. The lease is subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, \$292 of lease payments for land, subject to the aforesaid adjustment, are due.

Rent expense was \$1,504, \$1,334 and \$1,332 for the years ended December 31, 1998, 1997 and 1996, respectively.

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 1998 and 1997. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's stock. As of December 31, 1998, approximately \$133,000 of retained earnings were free of these restrictions. Certain supplemental indentures also prohibit PSW from making loans to or purchasing the stock of the Company.

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. Excluding amounts due under PSW's revolving credit agreement, the Company's future sinking fund payments and debt maturities are as follows:

Interest Rate Range	1999	2000	2001	2002	2003	Thereafter
5.50% to 5.99%	\$ 400	\$ 400	\$ 400	\$ 400	\$ 10,000	\$ -
6.00% to 6.49%	-	-	-	10,000	-	32,000
6.50% to 6.99%	-	-	-	-	10,400	44,800
7.00% to 7.49%	2,000	2,000	2,000	2,000	12,000	20,000
7.50% to 7.99%	-	-	-	-	-	15,000
9.00% to 9.49%	52	57	62	467	474	45,431
9.50% to 9.99%	-	-	-	-	-	15,000
Total	\$ 2,452	\$ 2,457	\$ 2,462	\$ 12,867	\$ 32,874	\$ 172,231

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In July 1997, PSW established a two-year \$150,000 medium-term note program providing for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. This program replaced a similar program that expired in March 1997. The notes issued under this program are secured by the Thirty-First Supplement to the trust indenture relating to PSW's First Mortgage Bonds. In January 1998, PSW issued First Mortgage Bonds through the program as follows: \$10,000 6.14% Series due 2008 and \$10,000 5.8% Series due 2003. During 1997, First Mortgage Bond issuances through these programs were as follows: \$10,000 in March 1997, 7.06% Series due 2004; \$10,000 in July 1997, 6.75% Series due 2007; and \$10,000 in October 1997, 6.3% Series due 2002. The proceeds from these issuances were used to fund acquisitions and for PSW's ongoing capital program.

In January 1999, PSW issued a First Mortgage Bond of \$10,000 5.85% Series due 2004 through the medium-term note program. Proceeds from this issue were used to reduce the balance of PSW's revolving credit facility.

PSW has a \$50,000 revolving credit agreement due January 2000 with four banks. Interest under this facility is based, at PSW's option, on the prime rate, an adjusted federal funds rate, an adjusted certificate of deposit rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts the total amount of short-term borrowings of PSW. A commitment fee of 1/8 of 1% is charged on the unused portion of the loan. The average cost of borrowing under this facility was 5.97% and 6.08%, and the average borrowing was \$29,015 and \$36,746, during 1998 and 1997, respectively. The maximum amount outstanding at the end of any one month was \$38,935 in 1998 and \$46,968 in 1997.

At December 31, 1998 and 1997, the Company and PSW had combined short-term lines of credit of \$16,000. In February 1999, the Company's short-term lines of credit were increased by \$3,000. Funds borrowed under these lines are classified as loans payable and are used to provide working capital.

The average borrowing under the lines was \$5,995 and \$8,009 during 1998 and 1997, respectively. The maximum amount outstanding at the end of any one month was \$10,670 in 1998 and \$10,840 in 1997. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 1998 and 1997 was 5.98% and 6.13%, respectively.

The total amount of interest paid on all borrowings, net of amounts capitalized, was \$17,857, \$17,445 and \$15,483 in 1998, 1997 and 1996, respectively. The pro forma weighted cost of long-term debt at December 31, 1998 and 1997 was 7.18% and 7.52%, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Preferred Stock of Subsidiary with Mandatory Redemption Requirements

PSW is authorized to issue up to 1,000,000 shares of preferred stock, with stated par value, in one or more series. In 1991, PSW issued 100,000 shares of 8.66% Series 1 Cumulative Preferred Stock, at par value of \$100 per share in a private placement. In December 1997, PSW called all of the remaining shares of its preferred stock for retirement in January 1998. As of December 31, 1997, \$4,214 has been classified as the current portion of preferred stock.

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt as of December 31, 1998 is \$264,278 and \$290,275, respectively. The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration.

The Company's customers' advances for construction and related tax deposits have carrying values of \$30,032 and \$5,821, respectively at December 31, 1998. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2019 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Stockholders' Equity

At December 31, 1998, the Company had 1,770,819 shares of Series Preferred Stock with a \$1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated 32,200 shares as Series B Preferred Stock, \$1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. In 1996, the Company issued all of the 6.05% Series B Preferred Stock in connection with the acquisition of UGS. The Series B Preferred Stock is recorded on the balance sheet at its liquidation value of \$100 per share. Dividends on the Series B Preferred Stock are cumulative and payable quarterly. PSC may not pay dividends on common stock unless provision has been made for payment of the preferred dividends. Under the provisions of this issue, the holders may redeem the shares, in whole or in part, at the liquidation value beginning December 1, 1998 and the Company may redeem up to 20% of this issue each year beginning December 1, 2001 and, at the holders' option, this redemption may be made in cash or through the issuance of debt with a five year maturity at an interest rate of 6.05%. As of December 31, 1998, all dividends have been provided for. In December 1998, 14,600 shares of this issue were called for early redemption by the holders. In January 1999, these shares were redeemed in cash at the liquidation value of \$100 per share.

In November 1998, the Company's shareholders approved an increase in

the number of shares of common stock authorized, par value \$.50 per share, from 40,000,000 shares to 100,000,000 shares. Shares outstanding at December 31, 1998, 1997 and 1996 were 27,726,654, 26,210,654 and 25,598,105, respectively. Treasury shares held at December 31, 1998, 1997 and 1996 were 533,292, 376,510 and 262,230, respectively.

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The following table summarizes the activity of common stockholders' equity:

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Total
Balance at December 31, 1995	\$ 6,224	\$ (3,580)	\$ 110,987	\$ 43,345	\$ 156,976
Net income	-	-	-	20,722	20,722
Dividends	-	-	-	(14,795)	(14,795)
Stock split	3,140	-	(3,140)	-	-
Sale of stock	298	693	11,546	-	12,537
Repurchase of stock	-	(760)	-	-	(760)
Equity Compensation Plan	1	-	38	-	39
Exercise of stock options	68	-	2,008	-	2,076
Balance at December 31, 1996	9,731	(3,647)	121,439	49,272	176,795
Net income	-	-	-	22,993	22,993
Dividends	-	-	-	(16,129)	(16,129)
Stock split	3,276	-	(3,276)	-	-
Sale of stock	178	506	7,128	-	7,812
Repurchase of stock	-	(2,829)	-	-	(2,829)
Equity Compensation Plan	1	-	50	-	51
Exercise of stock options	108	-	2,724	-	2,832
Balance at December 31, 1997	13,294	(5,970)	128,065	56,136	191,525
Net income	-	-	-	28,624	28,624
Dividends	-	-	-	(18,313)	(18,313)
Sale of stock	741	293	29,985	-	31,019
Repurchase of stock	-	(3,801)	-	-	(3,801)
Equity Compensation Plan	12	-	491	-	503
Exercise of stock options	83	-	1,899	-	1,982
Balance at December 31, 1998	\$ 14,130	\$ (9,478)	\$ 160,440	\$ 66,447	\$ 231,539

In February 1998, the Company issued 1,250,000 shares of common stock through a public offering, providing proceeds of \$25,840, net of expenses. The proceeds of this offering were used to repay short term debt and to make a \$19,000 equity contribution to PSW. PSW used the contribution from the Company to reduce the balance of its revolving credit loan.

In December 1997, the Company adopted a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that replaced the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan. Under the Plan, reinvested dividends continue to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors throughout the year, instead of during limited subscription periods, at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. The plans that were replaced sold original issue shares exclusively. During 1998, under the dividend reinvestment portion of the Plan, 190,290 original issue shares of common stock were sold providing the Company with proceeds of \$4,037. Under the former plans, 489,296 and 1,007,633 original issue shares of common stock were sold providing the Company with \$7,567 and \$12,280 of additional capital, after expenses, during 1997 and 1996, respectively.

In August 1997, the Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 669,612 shares of its common stock in the open market or through privately

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

negotiated transactions. In 1993, the Board of Directors approved a similar authorization. During 1998, 1997 and 1996, 151,406, 152,000 and 4,339 shares have been purchased at a net cost of \$3,333, \$2,284 and \$52, respectively. As of December 31, 1998, 476,739 shares remain available for purchase by the Company.

Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per share. The following table summarizes the shares used in computing Basic and Diluted net income per share:

	Years ended December 31,		
	1998	1997	1996
Average common shares outstanding during the period for Basic computation	27,408	25,908	24,966
Dilutive effect of employee stock options	468	365	296
Average common shares outstanding during the period for Diluted computation	27,876	26,273	25,262

Equity per common share was \$8.35 and \$7.31 at December 31, 1998 and 1997, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of \$.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

Employee Stock and Incentive Plans

Under the 1994 Equity Compensation Plan ("1994 Plan"), as amended and restated effective March 3, 1998, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In November 1998, the Shareholders authorized an increase to the number of shares from 1,900,000 shares to 2,900,000 shares of common stock for issuance under the 1994 Plan. The maximum number of shares that may be subject to grants under the 1994 Plan to any one individual in any one year is 100,000. Awards under this plan are made by the Board of Directors or a committee of the Board.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments ranging from 20% to 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant.

The following table summarizes stock option transactions for the two plans:

	As Of or For the Years Ended December 31,					
	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	968,137	\$ 10.86	1,030,701	\$ 9.08	1,055,038	\$ 8.33
Granted	263,500	22.13	263,333	15.14	254,000	11.20
Terminated	(444)	15.14	(33,405)	10.45	(38,136)	8.76
Exercised	(166,881)	9.50	(292,492)	8.45	(240,201)	8.11
Outstanding, end of year	1,064,312	\$ 13.86	968,137	\$ 10.86	1,030,701	\$ 9.08
Exercisable, end of year	548,680	\$ 9.83	439,527	\$ 8.76	412,723	\$ 8.16

Options exercised during 1998 ranged in price from \$6.59 per share to \$15.14 per share. The options outstanding at December 31, 1998 range in price from \$6.59 to \$22.13 and the options exercisable range from \$6.59 to \$15.14 per share. The weighted-average remaining life of the outstanding options at December 31, 1998 is 7.1 years. At December 31, 1998, 1,645,352 options under the 1994 Plan were still available for grant.

Under SFAS No. 123, "Accounting for Stock-Based Compensation", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income available to common stock and Basic and Diluted net income per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	1998	1997	1996
Net income available to common stock:			
As reported	\$ 28,624	\$ 22,993	\$ 20,722
Pro forma	27,222	22,229	20,337
Basic net income per share:			
As reported	\$ 1.04	\$ 0.89	\$ 0.83
Pro forma	0.99	0.86	0.81
Diluted net income per share:			
As reported	\$ 1.03	\$ 0.88	\$ 0.82
Pro forma	0.98	0.85	0.81

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The per share weighted-average fair value at the date of grant for stock options granted during 1998, 1997 and 1996 was \$5.32, \$2.90 and \$1.52 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1998	1997	1996
Expected life (years)	10	10	10
Interest rate	5.6%	6.6%	6.4%
Volatility	16.9%	13.8%	14.0%
Dividend yield	2.9%	4.0%	5.2%

Dividend equivalents provide the grantee with an amount equal to the dividends paid on a share of common stock over a specified period of time, not to exceed four years, multiplied by the number of dividend equivalents awarded. Payments of these awards are deferred until the completion of certain objectives during a performance period established by a Committee of the Board at the time of grant. A performance period is generally four years but may be adjusted by the Committee to as long as eight years or as short as two years depending on the Company's success in completing the objectives. Dividend equivalents are "compensatory" and, as such, are charged to operating expense over the performance period. The effect of changes to the performance period is accrued when known or projected. The Board granted 104,000, 104,000 and 99,000 dividend equivalents in 1998, 1997 and 1996, respectively, and costs associated with these awards were \$205 in 1998, \$330 in 1997 and \$234 in 1996. During 1998 and 1997, payments associated with the dividend equivalents of \$249 and \$191, respectively, were made to recipients.

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 1998, 1997 and 1996, 23,600, 3,600 and 3,200 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans that cover its full-time employees. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for one current and one retired employee. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In addition to providing pension benefits, PSW offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with at least 15 years of service. These PBOPs include continuation of medical and prescription drug benefits for all eligible retirees and a life insurance policy for eligible union retirees. The Company funds its gross PBOP cost through various trust accounts.

In 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." 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's pension expense includes the following components:

	Years Ended December 31,		
	1998	1997	1996
Benefits earned during the year	\$ 1,710	\$ 1,432	\$ 1,374
Interest cost on projected benefit obligation	4,078	3,796	3,523
Expected return on plan assets	(5,285)	(4,502)	(4,102)
Net amortization and deferral	177	222	221
Capitalized costs	(42)	(40)	(34)
Rate-regulated adjustment	(141)	(567)	(707)
Net pension cost	\$ 497	\$ 341	\$ 275

The rate-regulated adjustment set forth above is required in order to reflect pension expense for PSW in accordance with the method used in establishing water rates.

The Company's costs for postretirement benefits other than pensions includes the following components:

	Years Ended December 31,		
	1998	1997	1996
Benefits earned during the year	\$ 484	\$ 389	\$ 296
Interest cost	977	919	872
Expected return on plan assets	(452)	(272)	(161)
Net amortization and deferral	544	541	555
Amortization of regulatory asset	136	136	136
Gross PBOP cost	1,689	1,713	1,698
Capitalized costs	(426)	(407)	(79)
Net PBOP cost	\$ 1,263	\$ 1,306	\$ 1,619

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997

Change in benefit obligation:				
Benefit obligation at January 1,	\$ 57,157	\$ 51,321	\$ 12,727	\$ 12,617
Service cost	1,710	1,432	484	389
Interest cost	4,078	3,796	977	919
Plan amendments	11	492	928	(1,348)
Actuarial loss	3,045	2,794	527	538
Benefits paid	(2,949)	(2,678)	(397)	(388)
Benefit obligation at December 31,	63,052	57,157	15,246	12,727
Change in plan assets:				
Fair value of plan assets at January 1,	60,112	51,249	5,437	3,500
Actual return on plan assets	12,201	11,502	1,033	629
Employer contributions	53	39	1,541	1,699
Benefits paid	(2,949)	(2,678)	(333)	(391)
Fair value of plan assets at December 31,	69,417	60,112	7,678	5,437
Funded status of plan:				
Funded status at December 31,	(6,365)	(2,955)	7,568	7,290
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	11,511	7,715	3,939	3,984
Unrecognized prior service cost	(1,583)	(1,737)	876	1,908
Rate-regulated adjustment	(1,803)	(1,662)	-	-
Unrecognized net transition obligation	(276)	(364)	(10,408)	(11,151)
Accrued benefit costs	\$ 1,484	\$ 997	\$ 1,975	\$ 2,031
Weighted-average assumptions as of December 31,				
Discount rate	6.75%	7.00%	6.75%	7.00%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	5.50%	5.50%	-	-

The assumed medical inflation rates are 9%, reducing to 4.5% in 2002 for retirees under the age of 65 and 40%, reducing to 4.5% by 2006 for retirees 65 years of age and over. The effect of a 1% increase in the assumed medical inflation rates would be to increase the accumulated postretirement benefit obligation as of December 31, 1998 and the 1998 PBOP costs by \$899 and \$69, respectively. The effect of a 1% decrease in the assumed medical inflation rates would be to decrease the accumulated postretirement benefit obligation as of December 31, 1998 and the 1998 PBOP costs by \$826 and \$67, respectively. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Water Rates

On October 23, 1997, the Pennsylvania Public Utility Commission ("PUC") approved a rate settlement reached between PSW and the parties actively litigating the rate application PSW filed in April 1997. The settlement was designed to increase PSW's annual revenue by \$9,300 or 7.3% over the level in effect at the time of the filing. The rates in effect at the time of the filing included a 1% or \$1,300 Distribution System Improvement Charge ("DSIC"). Consequently, the settlement resulted in a total base rate increase of \$10,600 or 8.3%. As a part of the settlement, the DSIC was reset to zero and the Company agreed not to file a base rate increase request prior to April 1999, absent extraordinary circumstances.

In 1996, the PUC approved PSW's request to add a DSIC to its water bills. The DSIC enabled PSW to add a surcharge to customer bills beginning January 1, 1997 reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective. The maximum DSIC that can be in effect at any time is 5%. PUC rules require PSW to suspend the use of the DSIC in the quarter subsequent to a twelve month period that PSW's adjusted return on equity exceeds a benchmark established by the PUC. The benchmark is established quarterly by the PUC staff based on recent economic data. The Company's adjusted return on equity for the twelve months ending June 30, 1998 and September 30, 1998 exceeded the benchmark, and as a result the DSIC was suspended in the fourth quarter of 1998 and the first quarter of 1999. Based on the adjusted return on equity for 1998 and the most recent benchmark, the DSIC will be resumed in the second 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 the adoption of new base rates in October 1997. Prior to the new base rates, the DSIC rate had been 1.82%. The DSIC provided revenues in 1998 and 1997 of \$229 and \$1,104, respectively.

In addition to its base rates and the DSIC, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated into base rates. Effective May 18, 1998, PSW was required to initiate a revenue credit of .11% (\$.110 on an annual basis) of base water rates in order to provide its customers with the savings associated with a decrease in the Pennsylvania Capital Stock Tax rate. In February 1999, a 1.04% surcharge was implemented as a result of increases in the Pennsylvania Public Utility Realty Tax.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Discontinued Operations

The Board of Directors had authorized the sale of substantially all of the Company's non-regulated businesses and the last of these businesses was sold in 1993. At the time the Board of Directors authorized the sale of these businesses, the Company established reserves for: projected operating losses of these businesses subsequent to their sale authorizations; estimated losses on the sale transactions; and certain future costs, including administrative and legal services related to the sales, contingent legal and lease obligations and certain employee costs. These reserves were recorded on the balance sheet net of related income tax benefits.

As a result of the continuing assessment of asserted and unasserted legal claims related to these businesses, the passage of time, which reduced certain lease contingencies, and the receipt of contingent sale proceeds, the Company has determined that, the net reserves were in excess of estimates of potential costs. Consequently, in 1996, the Company reversed \$965 net of related income taxes, of these reserves. At December 31, 1998 there remains a balance in the reserve for discontinued operations of \$1,008 which is included in other accrued liabilities.

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Selected Quarterly Financial Data (Unaudited) Philadelphia Suburban Corporation and Subsidiaries
(in thousands of dollars, except per share amounts)

	First	Second	Third	Fourth	Total Year
1998					
Operating revenues	\$34,276	\$37,341	\$41,656	\$37,704	\$ 150,977
Operations and maintenance	13,668	14,020	14,714	15,772	58,174

Net income available to common stock	5,706	7,435	9,022	6,461	28,624
Basic net income per common share	0.21	0.27	0.33	0.23	1.04
Diluted net income per common share	0.21	0.27	0.32	0.23	1.03
Dividend paid per common share	0.1625	0.1625	0.1700	0.1700	0.6650
Price range of common stock					
- high	25.75	22.56	28.19	30.06	30.06
- low	19.56	18.88	20.50	23.00	18.88

1997

Operating revenues	\$31,021	\$33,315	\$36,754	\$35,081	\$ 136,171
Operations and maintenance	13,068	13,295	14,466	15,070	55,899
Net income available to common stock	4,460	5,778	7,323	5,432	22,993
Basic net income per common share	0.17	0.23	0.28	0.21	0.89
Diluted net income per common share	0.17	0.22	0.28	0.21	0.88
Dividend paid per common share	0.152	0.152	0.159	0.159	0.622
Price range of common stock					
- high	15.47	15.10	18.00	22.18	22.18
- low	11.72	11.44	14.07	15.10	11.44

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape.

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Summary of Selected Financial Data Philadelphia Suburban Corporation and Subsidiaries
(in thousands of dollars, except per share amounts)

Years ended December 31,	1998	1997	1996	1995	1994
PER COMMON SHARE:					
Income from continuing operations					
Basic	\$ 1.04	\$ 0.89	\$ 0.79	\$ 0.75	\$ 0.68
Diluted	1.03	0.88	0.78	0.75	0.68
Net income					
Basic	1.04	0.89	0.83	0.77	0.68
Diluted	1.03	0.88	0.82	0.77	0.68
Cash dividends	0.67	0.62	0.59	0.57	0.55
Return on average shareholders' equity (a)	13%	12%	12%	12%	11%
Book value at year end	\$8.35	\$ 7.31	\$ 6.91	\$ 6.44	\$ 6.14
Market value at year end	29.56	22.08	14.91	10.38	9.06
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues (a)	\$150,977	\$136,171	\$122,503	\$117,044	\$108,636
Depreciation and amortization (a)	16,089	14,580	13,333	11,557	10,330
Interest expense (a) (b)	18,255	17,738	15,541	15,178	13,636
Income before income taxes (a)	48,424	39,061	33,749	30,931	27,209
Provision for income taxes (a)	19,605	15,873	13,971	12,901	11,571
Income from continuing operations	28,819	23,188	19,778	18,030	15,638
Net income available to common stock	28,624	22,993	20,722	18,400	15,638
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$701,450	\$618,472	\$582,944	\$518,051	\$460,062
Property, plant and equipment, net	609,808	534,483	502,938	436,905	385,709
Stockholders' equity	234,759	194,745	180,015	156,976	143,795
Preferred stock with mandatory redemption (c)	-	4,214	5,643	7,143	10,000
Long-term debt (c)	264,278	234,919	229,962	188,985	153,082
Total debt	269,583	245,319	235,522	195,440	157,132
ADDITIONAL INFORMATION:					
Net cash flows from operating activities (a)	\$ 55,205	\$ 42,377	\$ 38,082	\$ 33,079	\$ 29,125
Capital additions (a) (d)	58,922	38,960	31,389	33,182	27,379
Dividends on common stock	18,313	16,129	14,795	13,546	12,637
Number of metered water customers	299,850	287,516	284,141	264,865	249,533
Number of shareholders of common stock	14,898	13,894	13,650	12,209	11,243
Common shares outstanding (000)	27,727	26,210	25,598	24,377	23,436
Employees (full-time)	542	531	540	535	525

(a) Continuing operations only.

(b) Includes dividend on preferred stock of subsidiary and is net of allowance for funds used during construction.

(c) Includes current portion.

(d) Excludes payments for acquired water systems of \$24,498 in 1998, \$1,226 in 1997, \$42,122 in 1996, \$26,351 in 1995 and \$612 in 1994.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists all of the subsidiaries of the Company at December 31, 1998:

Philadelphia Suburban Water Company (Pa.)
Utility & Municipal Services, Inc. (Pa.)
PSC Services, Inc. (Del.)
Suburban Wastewater Company (Pa.)
Suburban Environmental Services, Inc. (Pa.)
Little Washington Wastewater Company (Pa.)
Drexel Hill Corporation (Pa.)
Pennsylvania Suburban Water Company (Pa.)

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Philadelphia Suburban Corporation

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Equity Compensation Plan No. 333-70859), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option Plan No. 33-27032), (1982 Stock Option Plan No. 2-81757); and on Form S-3 (Dividend Reinvestment and Direct Stock Purchase Plan No. 333-42275), (Customer Stock Purchase Plan No. 33-64301) of Philadelphia Suburban Corporation of our report dated February 1, 1999, except as to the information included under the caption "Merger with Consumers Water Company" on pages 26 and 27 and in the second paragraph on page 23 which are as of March 10, 1999, relating to the consolidated balance sheets and the statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income and cash flow for each of the years in the three-year period ended December 31, 1998, which report is incorporated by reference in the December 31, 1998 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG LLP

Philadelphia, Pennsylvania
March 30, 1999

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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at December 31, 1998, and the consolidated statements of income and cash flow for the year ended December 31, 1998, and is qualified in its entirety by reference to such financial statements.

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