

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

For Quarter Ended March 31, 2001

Commission File Number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1702594 (I.R.S. Employer Identification No.)
762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania (Address of principal executive offices)	19010-3489 (Zip Code)
Registrant's telephone number, including area code:	(610)-527-8000

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

Yes X No
 ----- -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2001

54,109,888

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share amounts)

	March 31, 2001	December 31, 2000
Assets	(Unaudited)	
Property, plant and equipment, at cost	\$ 1,562,305	\$ 1,536,162
Less accumulated depreciation	292,052	284,735
Net property, plant and equipment	1,270,253	1,251,427
Current assets:		
Cash and cash equivalents	7,468	8,049
Accounts receivable and unbilled revenues, net	47,451	51,223

Inventory, materials and supplies	4,816	4,352
Prepayments and other current assets	6,040	7,054
	-----	-----
Total current assets	65,775	70,678
	-----	-----
Regulatory assets	78,724	67,757
Deferred charges and other assets, net	22,143	24,148
	-----	-----
	\$ 1,436,895	\$ 1,414,010
	=====	=====
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,760	\$ 1,760
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 54,991,461 and 54,520,300 in 2001 and 2000	27,496	27,260
Capital in excess of par value	298,239	291,013
Retained earnings	128,614	123,911
Minority interest	2,156	2,823
Treasury stock, 881,573 and 844,376 shares in 2001 and 2000	(16,215)	(15,346)
Accumulated other comprehensive income	369	926
	-----	-----
Total stockholders' equity	442,419	432,347
	-----	-----
Long-term debt, excluding current portion	472,015	468,769
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	15,790	15,943
Loans payable	100,412	88,994
Accounts payable	11,267	20,635
Accrued interest	8,379	10,199
Accrued taxes	21,299	15,815
Other accrued liabilities	21,473	21,597
	-----	-----
Total current liabilities	178,620	173,183
	-----	-----
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	155,080	151,718
Customers' advances for construction	56,225	58,718
Other	9,473	9,109
	-----	-----
Total deferred credits and other liabilities	220,778	219,545
	-----	-----
Contributions in aid of construction	123,063	120,166
	-----	-----
	\$ 1,436,895	\$ 1,414,010
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

1

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Operating revenues	\$70,193	\$64,208
Costs and expenses:		
Operations and maintenance	26,186	24,928
Depreciation	8,953	8,251
Amortization	522	270
Taxes other than income taxes	5,588	5,982
	-----	-----
	41,249	39,431
	-----	-----

Operating income	28,944	24,777
Other expense (income):		
Interest expense, net	10,262	9,855
Allowance for funds used during construction	(248)	(734)
Gain on sale of other assets	(2,791)	(1,363)
Minority interest	-	18
	-----	-----
Income before income taxes	21,721	17,001
Provision for income taxes	8,609	6,728
	-----	-----
Net income	13,112	10,273
Dividends on preferred stock	27	27
	-----	-----
Net income available to common stock	\$13,085	\$10,246
	=====	=====
Net income	\$13,112	\$10,273
Other comprehensive income (loss), net of tax	(557)	(654)
	-----	-----
Comprehensive income	\$12,555	\$ 9,619
	=====	=====
Net income per common share:		
Basic	\$ 0.24	\$ 0.20
	=====	=====
Diluted	\$ 0.24	\$ 0.20
	=====	=====
Average common shares outstanding		
during the period:		
Basic	53,952	51,188
	=====	=====
Diluted	54,598	51,571
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

2

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income	\$ 13,112	\$ 10,273
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	9,475	8,521
Deferred income taxes	2,282	1,519
Gain on sale of other assets	(2,791)	(1,363)
Net decrease in receivables, inventory and prepayments	3,990	2,458
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(6,333)	(8,826)
Payment of Competitive Transition Charge	(11,465)	-
Other	703	370
	-----	-----
Net cash flows from operating activities	8,973	12,952
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$248 and \$734	(19,809)	(19,691)
Proceeds from the sale of other assets	2,829	3,182
Acquisitions of water systems	(424)	-
Other	545	(278)
	-----	-----
Net cash flows used in investing activities	(16,859)	(16,787)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	601	897
Repayments of customers' advances	(1,653)	(1,620)
Net proceeds (repayments) of short-term debt	11,153	(328)
Proceeds from long-term debt	3,389	16,515
Repayments of long-term debt	(601)	(520)

Proceeds from issuing common stock	3,787	1,613
Repurchase of common stock	(962)	(3,502)
Dividends paid on preferred stock	(27)	(27)
Dividends paid on common stock	(8,382)	(7,367)
Other	-	(3)
	-----	-----
Net cash flows from financing activities	7,305	5,658
	-----	-----
Net increase (decrease) in cash and cash equivalents	(581)	1,823
Cash and cash equivalents at beginning of period	8,049	4,658
	-----	-----
Cash and cash equivalents at end of period	\$ 7,468	\$ 6,481
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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

	March 31, 2001	December 31, 2000
	----- (Unaudited)	----- (Audited)
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,760	\$ 1,760
Common stock, \$.50 par value	27,496	27,260
Capital in excess of par value	298,239	291,013
Retained earnings	128,614	123,911
Minority interest	2,156	2,823
Treasury stock	(16,215)	(15,346)
Accumulated other comprehensive income	369	926
	-----	-----
Total stockholders' equity	442,419	432,347
	-----	-----
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	5,151	4,368
2.50% to 4.99%	7,666	6,712
5.00% to 5.49%	8,580	6,667
5.50% to 5.99%	31,060	31,060
6.00% to 6.49%	145,525	145,570
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	62,007	62,007
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	16,614	16,621
8.50% to 8.99%	10,457	10,460
9.00% to 9.49%	53,615	53,615
9.50% to 9.99%	49,336	49,831
10.00% to 10.55%	6,160	6,167
	-----	-----
Total First Mortgage Bonds	474,371	471,278
Notes payable to banks under revolving credit agreements, due May 2001	12,000	12,000

Installment note payable, 9%, due in equal annual payments through 2013	1,434	1,434
	-----	-----
Current portion of long-term debt	487,805	484,712
	15,790	15,943
	-----	-----
Long-term debt, excluding current portion	472,015	468,769
	-----	-----
Total capitalization	\$914,434	\$901,116
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of capitalization of Philadelphia Suburban Corporation ("PSC") at March 31, 2001, the consolidated statements of income and comprehensive income and cash flow for the three months ended March 31, 2001 and 2000, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary

to present fairly the consolidated financial position, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and therefore, should be read in conjunction with the PSC Annual Report on Form 10-K for the year ended December 31, 2000. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. Certain prior year amounts have been reclassified to conform with current year's presentation.

Note 2 Water Rates

During the first quarter of 2001, Consumers Water Company ("CWC") operating subsidiaries were allowed annual rate increases of \$4,168, representing six rate decisions in various states. Revenues from these rate increases realized in the first quarter of 2001 were approximately \$700. In April 2001, two additional rate decisions were received in another operating subsidiary of CWC representing an annual rate increase of \$119.

Note 3 Regulatory assets

The Pennsylvania Electricity Generation Customer Choice and Competition Act ("the Act") permitted distribution companies to recover their stranded costs over approximately 12 years in the form of a Competitive Transition Charge ("CTC"). Consistent with the provisions of the Act, during the quarter Philadelphia Suburban Water Company negotiated and closed on the full pay off of its allocable share of CTC charges from its electric distribution company, PECO Energy Company. The \$11,465 payment has been recorded as a regulatory asset and is expected to be recovered in future water rates over 10 years.

Note 4 Long-term Debt and Loans Payable

During the first quarter of 2001, operating subsidiaries issued \$3,321 of long-term debt at varying rates of interest ranging from 1% to 3.24% and due at various times in 2019, 2020 and 2021. The proceeds of these issues were used to reduce a portion of the balance of short-term debt. As March 31, 2001, the Trustees for two financing issues that closed in 2000 continues to hold \$4,929 pending completion of the projects financed with the issue and the restricted funds are included as cash and cash equivalents in the consolidated balance sheet.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

Note 5 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common 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 common share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per common share:

	Three Months Ended March 31,	
	2001	2000
Average common shres outstanding during the period for Basic computation	53,952	51,188
Dilutive effect of employee stock options	646	383
Average common shares outstanding during the period for Diluted computation	54,598	51,571

=====

Note 6 Stockholders' Equity

PSC reports other comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The following table summarizes the activity of accumulated other comprehensive income:

	2001	2000
	-----	-----
Balance at January 1,	\$ 926	\$2,020
Unrealized holding loss arising during the period		
not of tax of \$300 in 2001 and \$42 in 2000	(557)	(78)
Less: reclassification adjustment for gains included		
in net income, net of tax of \$409	-	(576)
	-----	-----
Other comprehensive income (loss), net tax	(557)	(654)
	-----	-----
Balance at March 31,	\$ 369	\$1,366
	=====	=====

Note 7 Acquisitions

During the first quarter of 2001, four acquisitions or growth ventures were completed in North Carolina, Pennsylvania and New Jersey. The total purchase price for the systems acquired consisted of \$424 in cash and the issuance of 195,368 shares of PSC's common stock. In April 2001, our wastewater operating subsidiary purchased the assets of the Media Borough wastewater system in Delaware County, Pennsylvania for \$3,700 in cash.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly 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, our use of cash; projected capital expenditures; liquidity; 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 our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, and acquisitions. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Philadelphia Suburban Corporation ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. Our two primary subsidiaries are Philadelphia Suburban Water Company ("PSW"), a regulated public utility that provides water or wastewater services to about 1.1 million residents in the suburban areas north and west of the City of Philadelphia, and Consumers Water Company ("CWC"), a holding company for several regulated public utility companies that provide water or wastewater service to about 850,000 residents in various communities in five states. Other subsidiaries provide water and wastewater services in parts of Pennsylvania, North Carolina and Ohio. We are among the largest investor-owned water utilities in the United States based on the number of customers. In addition, we provide water and wastewater service to approximately 35,000 people through operating and maintenance contracts with municipal

authorities and other parties close to our operating companies' service territories. Some of our subsidiaries provide wastewater collection, treatment and disposal services (primarily residential) to approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina.

Financial Condition

During the quarter, we had \$19,809 of capital expenditures, repaid \$1,653 of customer advances for construction and made sinking fund contributions of \$601. The capital expenditures were related to new water mains and customer service lines, the rehabilitation of existing water mains, hydrants and customer service lines, in addition to treatment plant, well and booster improvements.

During the quarter, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds, available working capital and funds available under the revolving credit agreements were used to fund the cash requirements discussed above and to pay dividends. During the quarter, operating subsidiaries issued \$3,321 of long-term debt at varying rates of interest ranging from 1% to 3.24% and due at various times in 2019, 2020 and 2021. The proceeds of these issues were used to reduce a portion of the balance of short-term debt.

7

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)

At March 31, 2001, we had short-term lines of credit of \$190,402, of which \$77,990 was available.

The Pennsylvania Electricity Generation Customer Choice and Competition Act ("the Act") permitted distribution companies to recover their stranded costs over approximately 12 years in the form of a Competitive Transition Charge ("CTC"). Consistent with the provisions of the Act, during the quarter Philadelphia Suburban Water Company negotiated and closed on the full pay off of its allocable share of CTC charges from its electric distribution company, PECO Energy Company. The \$11,465 payment has been recorded as a regulatory asset and is expected to be recovered in future water rates over 10 years.

Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock are adequate to meet our financing requirements for the balance of the year and beyond.

Results of Operations

Analysis of First Quarter of 2001 Compared to First Quarter of 2000

Revenues for the quarter increased \$5,985 or 9.3% primarily as a result of increased water rates granted to the operating subsidiaries and additional water revenues associated with the larger customer base due to acquisitions, offset partially by a decrease in water consumption. The increased water rates are primarily associated with the Pennsylvania rate increase granted in April 2000.

Operations and maintenance expenses increased by \$1,258 or 5.0% due to the additional operating costs associated with acquisitions, increased wages and benefit costs, and additional treatment costs associated with new treatment plants in Illinois and Pennsylvania, offset partially by reduced maintenance costs resulting from the relatively mild winter weather experienced in 2001 as compared to 2000.

Depreciation expense increased \$702 or 8.5% reflecting the utility plant placed in service since the first quarter of 2000, including the assets acquired through system acquisitions.

Amortization increased \$252 primarily due to the amortization of the costs associated with, and the other costs being recovered in, various rate filings.

Taxes other than income taxes decreased by \$394 or 6.6% due to a reduction in the Pennsylvania Public Utility Realty Tax ("PURTA") and a decrease in the Pennsylvania Capital Stock Tax. The decrease in PURTA is a result of a reduction in the assessment and the Capital Stock Tax decreased due to a reduction in the

tax rate.

Interest expense increased by \$407 or 4.1% primarily due to increased borrowings to finance on-going capital projects, offset partially by decreased interest rates on borrowings.

Allowance for funds used during construction decreased by \$486 primarily due to a decrease in the average balance of utility plant construction work in progress resulting from the completion of the construction of a \$35,000 water treatment plant at one of the operating subsidiaries. Construction commenced on this facility in December 1997 and was completed in the third quarter of 2000.

8

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Gain on sale of other assets increased \$1,428 due to an increase of \$2,489 in the gain on the sale of land recognized as compared to 2000, offset in part by a gain on the sale of marketable securities of \$1,061 being realized in the first quarter of 2000. There were no marketable securities sold in the first quarter of 2001.

Our effective income tax rate was 39.6% in the first quarter of 2001 and 2000.

Net income available to common stock for the quarter increased by \$2,839 or 27.7% in comparison to 2000 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.04 or 20.0% reflecting the change in net income and a 5.9% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the 1,653,125 share stock offering in September 2000 and additional shares issued in connection with acquisitions.

Impact of Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in June 1999 amended this standard by issuing SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and 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. SFAS No. 137 changed the timing of the implementation of SFAS No. 133. The adoption of these statements on January 1, 2001 did not have a material impact on our results of operations or financial condition. As of March 31, 2001, we had no derivative instruments or hedging activities.

9

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that are expected to have a material effect on our financial position, results of operations and cash flows. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, which is included by a reference herein.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
10.34	2001 Annual Cash Incentive Compensation Plan

(b) Reports on Form 8-K

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2000.

10

SIGNATURE

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

May 14, 2001

PHILADELPHIA SUBURBAN CORPORATION

Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

/s/ David P. Smeltzer

David P. Smeltzer
Senior Vice President - Finance
and Chief Financial Officer

11

EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No. -----
10.34	2001 Annual Cash Incentive Compensation Plan	13

12

PHILADELPHIA SUBURBAN CORPORATION
PHILADELPHIA SUBURBAN WATER COMPANY
CONSUMERS WATER COMPANY
2001 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- [] In 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 with incentive compensation.
- [] The study included interviews with 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).
- [] The Plan has two components - a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.
- [] The Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of the Company. The 2001 Management Incentive Program will cover officers, managers and certain key employees of Philadelphia Suburban Corporation, and its subsidiaries.
- [] 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.

1

MANAGEMENT INCENTIVE PROGRAM

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

The approach of having a plan tied to the applicable 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 participants' individual objectives being met, as improvements 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 applicable company's actual after-tax net income from continuing operations relative to its annual budget will be the primary measure for the company's performance. Each year a "Target Net Income" level will be established. Starting in 2000, portions of the Company Rating Factor may be tied to the net income targets of more than one company for some participants. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 2001, the Target Net Income will exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in

accounting principles.

- 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 (the "Individual Factor"). Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity, enhancing customer service and growing the company's customer base. Each objective has specific performance measures that are used to determine the level of achievement for each objective.

2

[] Participation

- Eligible participants consist of officers, managers and certain key employees.
- 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 depending on duties and responsibilities.
- For each company, the Target Bonus Percentage for all the participants within that company will be applied to either their base salary or their salary grade midpoint as designated by the company's chairman, subject to the approval of the Executive Compensation and Employee Benefits Committee.
- 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.
- New employees who are hired into a position that is eligible to participate in the Management Incentive Plan, will normally be eligible to receive a portion of the bonus calculated in accordance with this Plan that is pro-rated based on the number of full calendar months between the new employee's hire date and the end of the calendar year.
- Employees who would otherwise be eligible to participate in this Management Incentive Plan, but who leave employment with the company either voluntarily, involuntarily or as a result of retirement, will not receive a bonus for the year in which their employment terminates. If an employee who would otherwise be eligible to participate in this Management Incentive Plan dies, the company will pay the deceased employee's estate a portion of the bonus the deceased employee would otherwise have been entitled to assuming a 100% Individual Rating Factor, but pro-rated for the number of full calendar months the employee completed before his or her death.

3

[] Company Performance

- Company performance will be measured on the following schedule:

Percent of Target Net Income	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 Factor 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.

[] Individual Performance

- Individual performance will be measured on the following scale:

Performance Measure Points -----	Individual Rating Factor -----
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.

Sample Calculations

[] Example 1

Salary or midpoint	\$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 =====

[] 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:

$$\$7,000 \quad \times \quad 0 \quad \times \quad 90\% \quad = \quad 0$$

[] Example 3

-- Similarly, if the Individual Factor is rated below 70 points, no bonus would be earned regardless of the Company Factor.

Calculation:

$$\$7,000 \quad \times \quad 100\% \quad \times \quad 0 \quad = \quad 0$$

5

o Example 4

-- If the Company Rating Factor is allocated between two companies, the bonus will be calculated separately based on the allocation.

Calculation:

Target Bonus	x	Company Rating	x	Company Allocation	x	Individual Rating	= Bonus Earned
-----		-----		-----		-----	
\$7,000	x	100%	x	20%	x	90%	= \$1,260
\$7,000	x	110%	x	80%	x	90%	= \$5,544

Total Bonus							= \$6,804

o Example 5

-- It is also possible that one portion of the applicable Company Rating Factor is zero, for which there would be no bonus, regardless of the participant's Individual Rating Factor.

Calculation:

Target Bonus	x	Company Rating	x	Company Allocation	x	Individual Rating	= Bonus Earned
-----		-----		-----		-----	
\$7,000	x	0%	x	20%	x	90%	= \$0
\$7,000	x	110%	x	80%	x	90%	= \$5,544

Total Bonus							= \$5,544

6

EMPLOYEE RECOGNITION ("CHAIRMAN'S AWARD") PROGRAM

[] In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman's Award program to reward non-union employees not eligible for the management bonus plan for 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.

[] Awards will be made from an annual pool designated by the Chairman of PSC with the approval of the Executive Compensation and Employee Benefits Committee. 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.

- [] In general, Chairman's Awards will not be made with a company that does not achieve at least 90% of its net income objective for the year.
- [] Awards may be made throughout the year, however, no more than one-third of a company's Chairman's Award pool may be awarded until the company's final net income for the year is determined.
- [] Nominations for employees to receive Chairman's Awards will be made to the applicable officer and should include documentation on the reasons for the recommendations. The applicable officer will review the nominations and forward their recommendations to the Chairman of PSC.
- [] The Chairman will determine the individuals to actually receive a bonus and the amount.